



Report of Independent Certified Public Accountants
on Financial Statements, Supplementary Information, and
Schedule of Expenditures of Federal and State Awards

To the Honorable Mayor and
Members of the City Council
City of Chattanooga, Tennessee

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely-presented component units, each major fund, and the aggregate remaining fund information of the City of Chattanooga, Tennessee, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Chattanooga, Tennessee's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Chattanooga Metropolitan Airport Authority and the Chattanooga Area Regional Transit Authority, which represent 45 percent and 66 percent, respectively, of the assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Chattanooga Metropolitan Airport Authority and the Chattanooga Area Regional Transit Authority, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Chattanooga, Tennessee, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 12, 2008, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages iii through xvii of the Financial Section and the required supplementary information on pages 54-55 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Chattanooga, Tennessee's basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The introductory section, combining and individual nonmajor fund and component unit financial statements, the budgetary comparison schedules included as other supplementary information, financial schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund and component unit financial statements, the budgetary comparison schedules included as other supplementary information, the financial schedules, and the schedule of expenditures of federal and state awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Hazlett, Lewis & Bister, PLLC

Chattanooga, Tennessee
December 12, 2008

In this section of the City of Chattanooga's annual financial report we offer readers a narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2008. Please consider the information presented here in conjunction with the transmittal letter found at the front of this report and with the City's financial statements, which follow this section.

Financial Highlights

- The assets of the City of Chattanooga exceeded its liabilities at the close of the fiscal year by \$1.9 billion (net assets), an increase of \$26.1 million. Of this amount, \$88.4 million may be used to meet the government's ongoing obligations to citizens and creditors (unrestricted net assets), a \$10.8 million decrease over last year.
- While the net assets of our business-type activities increased \$21.1 million, or 4.1 percent, the net assets of our governmental activities increased \$5.1 million, or 0.4 percent. During the year, the City generated \$247.9 million in taxes and other revenues for governmental programs. This compares with \$247.2 million of expenses for these programs.
- The City of Chattanooga has opted to use depreciation rather than the maintenance method to report infrastructure assets. During the current fiscal year governmental activities recognized depreciation expense of \$39.8 million including \$25.2 million on infrastructure assets alone.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$92.6 million, a decrease of \$5.7 million from last year. This decrease is the result of several factors.
 - o Fund balance in General Fund decreased \$3.0 million due to use of reserves to fund capital projects through operations.
 - o Capital projects fund balance decreased \$3.2 million because capital expenditures exceeded new debt issuance, capital contributions and transfers in during the year.
 - o Fund balance in other governmental funds increased approximately \$500,000 primarily due to proceeds from a loan entered into through Community Development, a special revenue fund.
 - o Property tax revenues were \$1.9 million higher than expected reflecting strong real estate values while county-wide and state sales taxes combined were \$1.2 million higher than expected reflecting a strong retail environment.
 - o The City's automated traffic enforcement program was initiated this year generating over \$800,000 in new revenue.
 - o As discussed in more detail in the governmental fund analysis, expenditures also increased led by personnel costs which rose approximately 4.6 percent for employee raises resulting from implementation of a new pay plan.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund was \$40.7 million, down \$4.3 million or 9.5 percent from prior year. This represents 20.8 percent of total General Fund expenditures and transfers out. The City's Debt Management Policy prescribes this to remain above 15 percent.
- Long-term liabilities for the City's Primary Government increased \$211.2 million, 40.3 percent, during the current fiscal year because of the issuance of \$219.8 million in revenue bonds by EPB, an enterprise fund of the City. As a result business-type activity debt increased \$204.4 million from \$225.9 million to \$430.3 million. Governmental activities debt decreased \$3.2 million from \$279.2 million to \$276.0 million with minimal draw downs on previously authorized but unissued debt with the Tennessee Municipal Bond Fund, pay-off of the Fannie Mae Loan and issuance of \$4.6 million in a new HUD Section 108 loan.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Chattanooga's financial statements. The basic financial statements consist of three parts: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The first two statements are government-wide financial statements. They are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

The government-wide financial statements are:

- **Statement of Net Assets** -- presents information about the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- **Statement of Activities** -- presents information showing how the City's net assets changed during the most recent fiscal year. All current year revenues and expenses are taken into account regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) and other functions that are intended to recover all, or a significant portion, of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government; public safety; public works; parks, recreation, education, arts & culture and social services. The business-type activities include the City's electric, sewer and water quality systems, as well as solid waste disposal and housing management operations.

The government-wide financial statements include not only the City itself (known as the primary government) but also three legally separate entities (known as component units). The Chattanooga Metropolitan Airport Authority, the Chattanooga Area Regional Transportation Authority (CARTA) and the Chattanooga Downtown Redevelopment Corporation, although legally separate from the City, are important because the City is financially accountable for them.

Complete financial statements of the component units may be obtained from: (1) Chattanooga Metropolitan Airport Authority, P. O. Box 22444, Chattanooga, TN 37422; (2) CARTA, 1617 Wilcox Boulevard, Chattanooga, TN 37406 and (3) The Chattanooga Downtown Redevelopment Corporation, 101 East 11th Street, Suite 101, Chattanooga, Tennessee 37402.

The government-wide financial statements begin on page 1 of this report.

Fund Financial Statements

The fund financial statements provide more detailed information about the most significant funds—not the City as a whole. Some funds are required by State or Federal law or by bond covenants; other funds are established by the City to help it manage money for specific purposes (i.e. economic development projects) or to show that it is meeting legal responsibilities for how certain taxes, grants and other monies are used (i.e. grants received from the U. S Department of Housing and Urban Development).

All the funds of the City can be divided into three types of funds: (1) governmental funds, (2) proprietary funds, and (3) fiduciary funds.

- **Governmental funds** -- The City's basic services are included in governmental funds. The focus of these funds is on (1) how cash and other financial assets that can readily be converted to cash were received and used and (2) what remains at the end of the fiscal year for future spending.

This detailed short-term view helps in determining whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not include the additional long-term focus of the government-wide statements, we provide additional information after the governmental fund statements that explain the differences between the long-term view and the short-term view.

The City maintains a general fund, multiple special revenue funds, a debt service fund, a capital projects fund and one permanent fund as governmental funds. Information is presented separately in the governmental statements for the General Fund and the capital projects fund since both of these are considered major funds. Data for the other funds is combined into a single column with individual fund data for each of these nonmajor governmental funds provided in the other supplementary information section of this report.

The City of Chattanooga adopts an annual budget for the General Fund, special revenue funds and the debt service fund. Budgetary comparisons are provided for these funds to demonstrate compliance with the budget: the General Fund budgetary comparison is found in the fund statements of this report and comparisons for special revenue funds and the debt service fund are provided in the other supplementary information section of this report. Both the capital projects fund and the permanent funds are excluded from budgetary reporting since neither adopts an annual budget.

The governmental fund financial statements begin on page 4 of this report.

- **Proprietary funds** -- Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. The City of Chattanooga maintains two different types of proprietary funds: enterprise funds and an internal service fund.

Enterprise funds are the same as business-type activities in the government-wide financial statements but provide more detail and additional information, such as cash flows. The Electric Power Board (EPB), Interceptor Sewer System, Water Quality Management and Solid Waste are considered major funds. The only other fund, Housing Management, is also shown on the face of the proprietary fund financial statements.

Internal service funds provide services for other City activities. The City of Chattanooga accounts for maintenance of City vehicles and risk financing (including health costs) in the internal service fund. Because these services predominantly benefit governmental rather than business-type functions, they have been included in governmental activities in the government-wide financial statements.

The proprietary fund statements begin on page 9 of this report.

- **Fiduciary funds** -- These funds are used to account for resources held for the benefit of others outside the government. The City maintains two pension trust funds and one OPEB trust fund as the only fiduciary funds. The City is responsible for ensuring that the assets are used for their intended purposes, however, we exclude these activities from the City's government-wide financial statements since these assets cannot be used to finance City operations. The City's fiduciary activities are reported in statements of fiduciary net assets and changes in fiduciary net assets in the fund financial statements.

The fiduciary fund financial statements begin on page 14 of this report.

As previously stated, the City includes three legally separate component units in the government-wide financial statements. Financial information is provided for each component unit beginning on page 16 of this report.

Notes to the financial statements

The financial statements also include notes that provide additional information that is essential to a full understanding of the government-wide and fund financial statements.

The notes to the financial statements begin on page 18 of this report.

Supplementary information:

In addition to the basic financial statements discussed above, this report also contains supplementary information.

- **Required supplementary information** -- Information about the City's progress in funding its obligation to provide pension and OPEB benefits to its employees.
- **Other supplementary information** – This includes the combining statements for nonmajor governmental funds and discretely presented component units. It also includes a more detailed budget to actual comparison for General Fund and budget to actual comparisons for special revenue funds and the debt service fund.

Both the required and other supplementary information can be found following the notes to the financial statements beginning on page 53.

Financial Analysis of the City as a Whole

Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$1.9 billion at the close of the most recent fiscal year, an increase of \$26.1 million, or 1.4 percent, from last year.

By far the largest portion of the City's net assets, 81.7 percent, reflects its investment in capital assets (land, buildings, equipment, infrastructure, etc), less any related debt used to acquire those assets. Because capital assets are used to provide services to citizens the assets are not available for future spending. It should be noted that although the City reports capital assets net of related debt, the resources needed to repay the debt must be provided from other sources.

A portion of the City's net assets, \$259.8 million or 13.6 percent, represents resources that are restricted in how they may be used including \$219.8 million in EPB revenue bond proceeds. The remaining balance of \$88.4 million may be used to meet the City's ongoing obligations, a \$10.8 million decrease; the decrease in unrestricted net assets reflects the use of fund balance for capital projects in the other enterprise funds.

City of Chattanooga's Net Assets						
(in thousands)						
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 252,658	\$ 247,219	\$ 418,237	\$ 188,262	\$ 670,895	\$ 435,481
Capital assets	1,546,363	1,535,711	698,474	678,702	2,244,837	2,214,413
Total assets	1,799,021	1,782,930	1,116,711	866,964	2,915,732	2,649,894
Long-term debt outstanding	294,097	296,747	441,044	227,236	735,141	523,983
Other liabilities	128,874	115,204	145,130	130,267	274,004	245,471
Total liabilities	422,971	411,951	586,174	357,503	1,009,145	769,454
Net assets:						
Invested in capital assets, net of debt	1,276,307	1,267,303	282,079	478,367	1,558,386	1,745,670
Restricted	12,296	16,780	247,477	18,789	259,773	35,569
Unrestricted	87,447	86,896	981	12,305	88,428	99,201
Total net assets	\$ 1,376,050	\$ 1,370,979	\$ 530,537	\$ 509,461	\$ 1,906,587	\$ 1,880,440

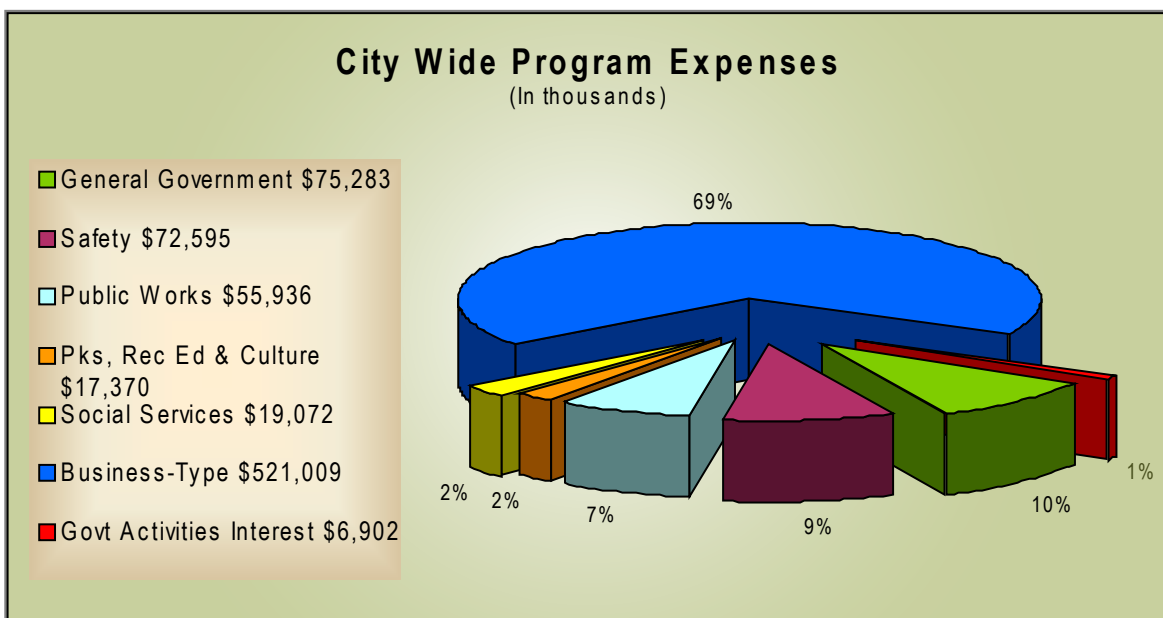
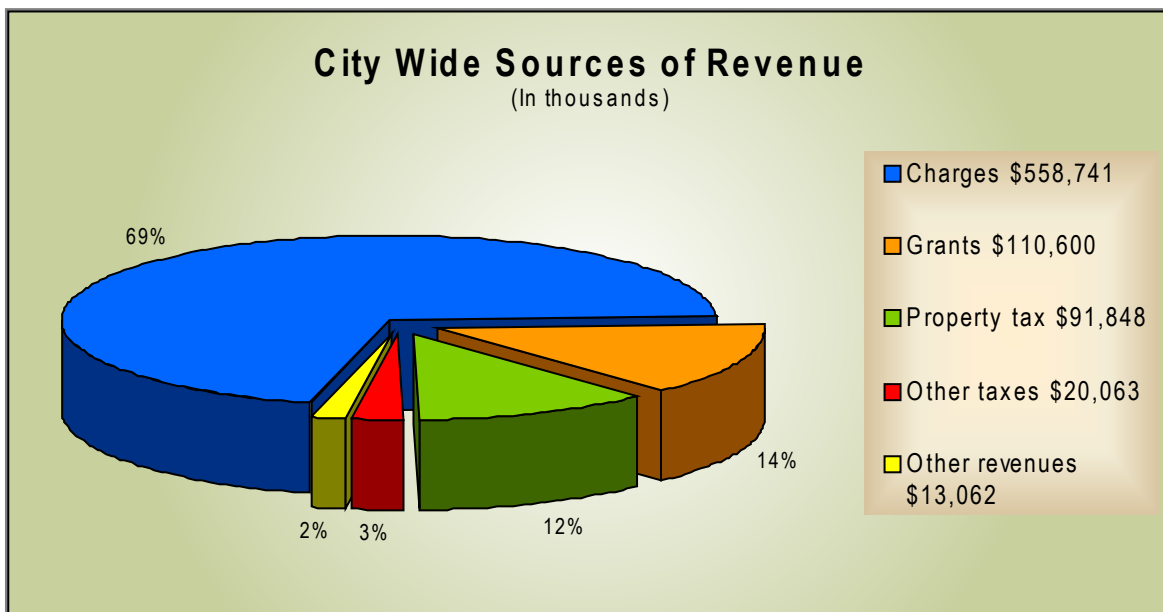
At the end of the fiscal year, the City of Chattanooga is able to report a positive net asset balance for the government as a whole, as well as for its governmental and business-type activities.

Changes in Net Assets

Net assets of the City's governmental activities were \$1.4 billion, a \$5.1 million increase from the prior year. Of that balance \$1.3 billion are either restricted as to how they may be used or are invested in capital assets (buildings, roads, bridges, etc.). Therefore \$87.4 million remains to meet the City's ongoing obligations to citizens and creditors, a \$550,000 increase.

During the current year the net assets of the business-type activities increased \$21.1 million or 4.1 percent to \$530.5 million. These net assets are dedicated solely to finance the continuing operations of the electric, sewer, and water quality systems, solid waste disposal and housing management operations.

The following graphs summarize the sources of the City's total revenues of \$794.3 million and total program expenses of \$768.2 million. These graphs combine governmental and business-type information.



In order to provide a complete picture of the changes in net assets of the City, information is provided separately for the net assets of governmental and business-type activities. See the following table.

City of Chattanooga's Changes in Net Assets						
(in thousands)						
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues						
Program revenues:						
Charges for services	\$ 20,259	\$ 17,596	\$ 538,481	\$ 493,380	\$ 558,740	\$ 510,976
Grants and contributions	55,275	47,300	1,858	2,029	57,133	49,329
General revenues:						
Property taxes	91,848	89,935	-	-	91,848	89,935
Other taxes	20,063	18,417	-	-	20,063	18,417
Investment income	4,104	5,193	5,250	5,002	9,354	10,195
Miscellaneous	2,893	17	817	108	3,710	125
Unrestricted grants	53,466	52,074	-	-	53,466	52,074
Total revenues	247,908	230,532	546,406	500,519	794,314	731,051
Expenses						
Governmental activities:						
General government	75,283	61,461	-	-	75,283	61,461
Public safety	72,595	68,559	-	-	72,595	68,559
Public works	55,936	55,076	-	-	55,936	55,076
Parks, rec, ed & culture	17,370	15,264	-	-	17,370	15,264
Social services	19,072	22,080	-	-	19,072	22,080
Interest on long-term debt	6,902	6,835	-	-	6,902	6,835
Business-type activities:						
Electric utility	-	-	472,114	441,556	472,114	441,556
Sewer	-	-	37,859	35,308	37,859	35,308
Solid waste	-	-	4,974	4,956	4,974	4,956
Water quality	-	-	5,059	4,938	5,059	4,938
Housing management	-	-	1,003	1,410	1,003	1,410
Total expenses	247,158	229,275	521,009	488,168	768,167	717,443
Excess (deficiency) before special item and transfers	750	1,257	25,397	12,351	26,147	13,608
Transfers	4,321	45	(4,321)	(45)	-	-
Increase (decrease) in net assets	5,071	1,302	21,076	12,306	26,147	13,608
Net assets, beginning	1,370,979	1,369,677	509,461	497,155	1,880,440	1,866,832
Net assets, ending	\$ 1,376,050	\$ 1,370,979	\$ 530,537	\$ 509,461	\$ 1,906,587	\$ 1,880,440

Governmental Activities

Current fiscal year revenues for the City's governmental activities were \$247.9 million compared to \$230.5 million last year, up 7.5 percent. Current year expenses were \$247.2 million compared to \$229.3 million last year, a 7.8 percent increase.

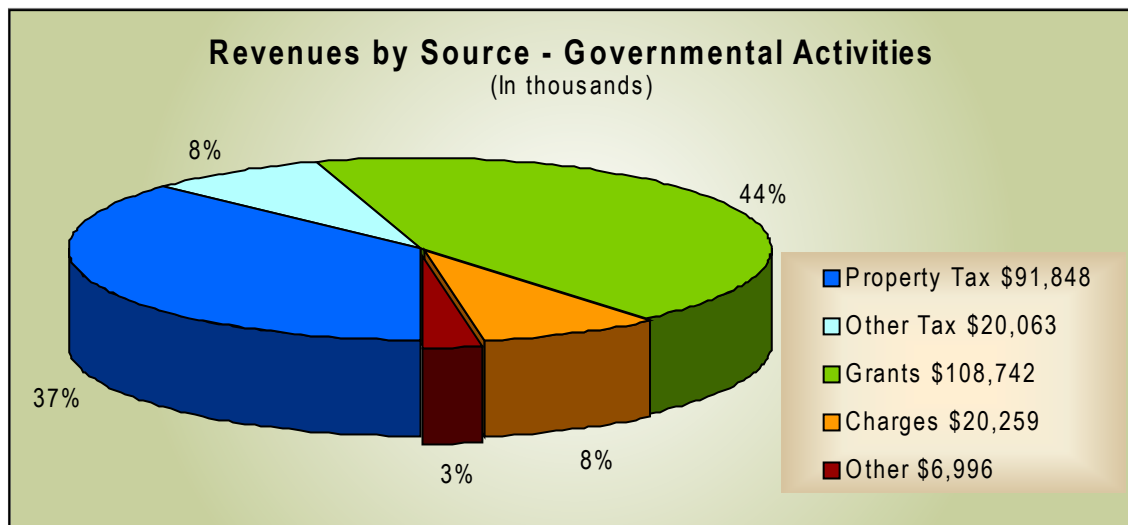
The areas of general revenue experiencing the largest increase for the year were property tax, other taxes, state income taxes, County-wide sales tax and miscellaneous. Investment earnings were lower for the year. Each is discussed below.

- The single largest source of governmental activity revenue, property taxes, increased by \$1.9 million, or 2.1 percent resulting from higher property tax assessments reflecting an increase in property values throughout the City.
- Other taxes increased \$1.3 million, or 10.9 percent primarily due to an extra quarterly franchise tax payment and increased hotel/motel tax collections for the year.
- The City's portion of State income taxes increased \$783,500 or 19.0 percent resulting from strong dividend and money market returns.
- County-wide sales tax increased \$650,000, or 1.8 percent as a result of strong consumer spending.
- There was a one-time \$3.3 million accrual of EPB payment-in-lieu of tax to accrue tax year 2008 revenues that did not meet accrual terms in the funds. This amount will be adjusted in following years.
- Investment income decreased \$1.1 million or 21.0 percent reflecting lower short-term interest rates and fewer dollars available to invest.

All program revenues had significant changes for the year.

- Charges for services increased \$2.7 million or 15.1 percent. The changes were due to new parking meters of \$754,100, the first year of the automated camera enforcement fines of \$820,730 and change in accounting treatment of zoo revenues of \$472,450. Zoo revenues are offset by including the same amount in expenses as discussed in expense changes for Parks, recreation, education, arts & culture.
- Operating grants and contributions decreased \$5.6 million or 17.6 percent. \$3.2 million of this decrease is a result of fewer Federal funds received for the home investment and community development programs. The remainder is due to unearned revenue adjustments.
- Capital grants and contributions increased \$13.6 million or 87.8 percent due increased donations of streets. During the fiscal year a single, new sub-division contributed \$10.3 million in streets.

The graph below shows the source of governmental activities revenue.



General government, Public safety and Parks, recreation, education, arts & culture experienced the largest increases in expenses while Social services decreased for the year.

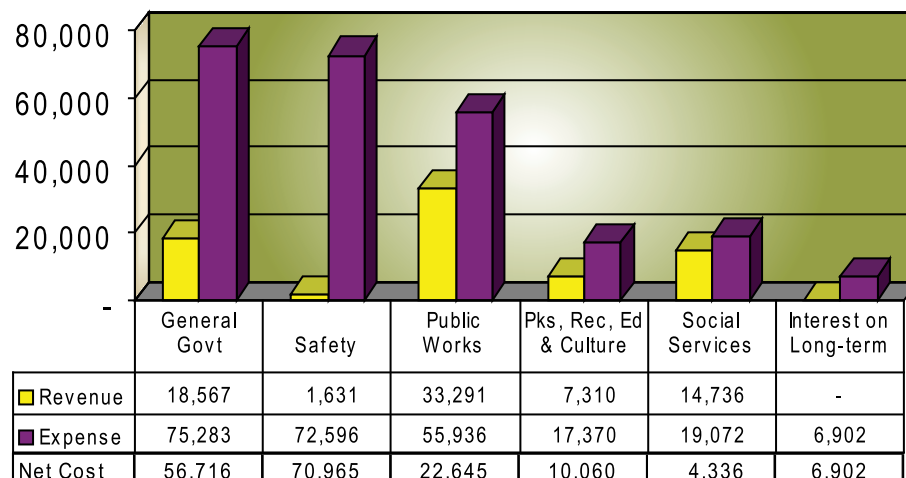
- General government expenses increased \$13.8 million or 22.5 percent. \$9.5 million is attributable to net OPEB expenses as the City partially funded the trust for other post-employment benefits. The remainder is primarily due to loss on sale of assets of \$2.2 million and \$1.7 million new depreciation including accelerated depreciation on new ERP software.
- Public safety costs increased \$4.0 million or 5.9 percent. The largest portion is a 6.3 percent or \$3.6 million increase in personnel costs which include \$1.4 million additional City contributions to the fire and police pension fund.
- Parks, recreation, education, arts & culture expenses increased \$2.1 million or 13.8 percent. Almost half of this, \$1.0 million, is attributable to personnel costs. In addition there was a change in accounting treatment for zoo admissions and gift shop revenue. The change resulted in recording \$472,450 in charges for services and paying out the same amount as an expense to Friends of the Zoo. This had previously been accounted for as a liability payment.
- Social service costs decreased \$3.0 million or 13.6 percent. Most of the decrease is attributable to fewer grant dollars received by Community Development.

The graph below provides the program revenue and expenses for each governmental activity. It also provides the net cost that must be provided from general revenues.

Expenses and Program Revenues

Governmental Activities

(In thousands)



Business-Type Activities

Revenues for the City's business-type activities were \$546.4 million for the year just completed; this is a \$44.6 million or 8.9 percent increase. The increase in revenue was offset by a \$33.0 million, 6.8 percent, increase in expenses, to \$521.2 million. All business-type activities are briefly covered below.

Electric Power Board

- The largest source of business-type activity revenue is generated from the Electric Power Board. Operating revenue from customers increased by \$42.6 million, 9.6 percent, due mainly to the impact of rate increases passed on from TVA and fuel cost adjustments. This increase in revenue was offset by a \$29.0 million, 6.7 percent, increase in operating costs including a \$22.4 million increase in purchased power costs.

- Total net assets of the Electric Power Board increased \$13.5 million to \$262.1 million for fiscal year 2008, an increase of 5.4 percent.
- Net assets invested in capital and restricted for use total \$261.9 million leaving \$200,000 available to finance day-to-day operations (unrestricted net assets). Net assets invested in capital, net of related debt decreased and restricted net assets increased from prior year due to a \$219.8 million revenue bond issue to finance the new Smart Grid.

Interceptor Sewer System

- Net assets of the Interceptor Sewer System increased \$6.3 million, 2.6 percent, to \$246.0 million.
- Operating revenues rose \$3.3 million or 8.4 percent primarily as a result of rate increases, while operating expenses rose \$2.9 million or 9.4 percent. Rates were adjusted October 1 from 4.55 to 4.69 and adjusted April 1 to 4.83. In addition to higher personnel and utility costs, during fiscal year 2008 a wireless network was added and sewer lining (previously capitalized) was included in operations.
- Unrestricted net assets, those that can be used to finance on-going operations, decreased \$9.4 million to \$27.7 million. An additional \$12.0 million is restricted for future capital spending. A \$9.5 million increase in commitments explains the decrease in unrestricted net assets.

Solid Waste

- The City of Chattanooga operates a municipal solid waste landfill. In 1991 the Environmental Protection Agency (EPA) issued an unfunded Federal mandate establishing closure and postclosure care requirements for such landfills. As a result of an aggressive program to meet these requirements, the Solid Waste Fund remains in a negative net asset position. However during fiscal year 2008 net assets increased by \$900,000. This follows a \$1.3 million increase in fiscal year 2006 and a \$2.7 million increase in fiscal year 2007.
- To date the City has accrued liabilities of \$4.5 million for a closed landfill and \$5.7 million for a landfill currently in operation, virtually unchanged from last year. Many of these costs are being financed through general obligation bonds.
- The major customer of the landfill is the City itself. During the current fiscal year tipping fees from the City of Chattanooga were \$4.6 million, 90.1 percent of total tipping fees.

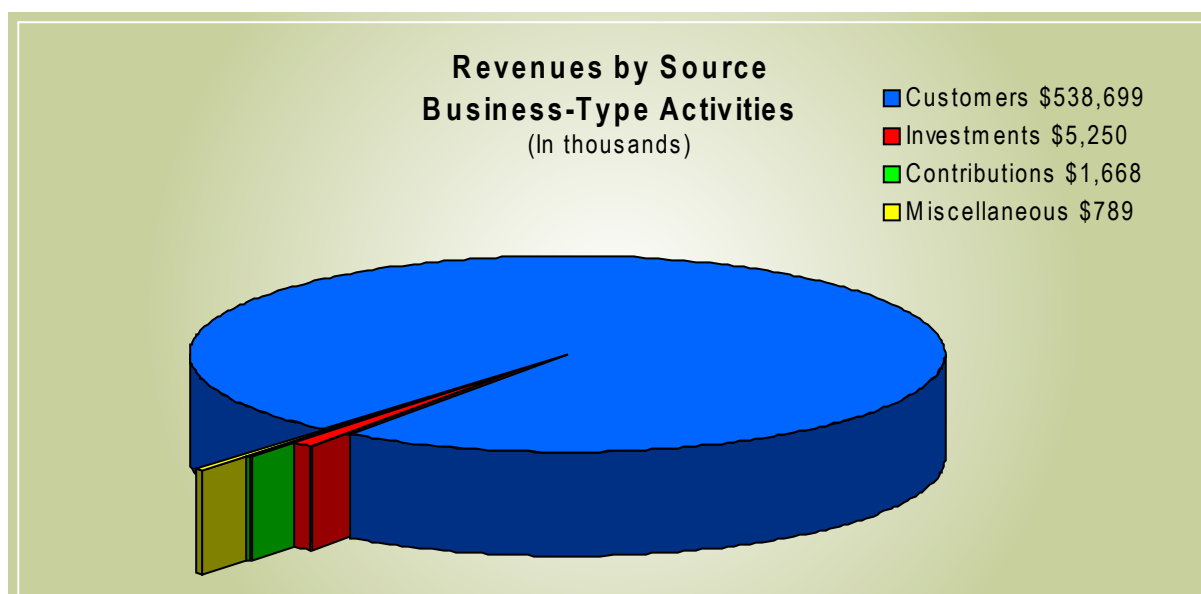
Water Quality Management

- The Water Quality Fund, established to comply with EPA guidelines, now has \$31.1 million in net assets, an increase of \$1.4 million, 4.6 percent, from last year.
- \$26.2 million of the net assets are invested in capital assets as a result of the aggressive capital campaign designed to continually improve storm water drainage and discharge within the City. This is a \$1.9 million, 7.9 percent increase.
- Net assets available to fund day-to-day operations decreased from \$4.9 million to \$3.6 million due to capital improvements funded from net assets.

Housing Management

- The Housing Management Fund reported \$750,000 in rental income, a decrease of 35.7 percent from last year. During the same period operating expenses decreased 15.3 percent to \$959,000.
- The fund ended the year with net assets of \$2.8 million, a decrease of \$1.0 million, or 26.6 percent. Almost all of the net assets are invested in capital leaving \$40,000 in assets available to meet on-going operations.
- At the beginning of fiscal year 2008 one of the two remaining apartment buildings was sold resulting in a net gain of \$775,000. Cash from operations of that complex and the one sold in fiscal year 2007 was transferred to the General Fund.

The following graph presents the major sources of revenue for business-type activities. Also presented is a chart showing the operating expense of each business-type activity as compared to operating revenue generated.



Operating Expenses and Revenues Business-Type Activities (in thousands)					
	Electric	Sewer	Solid Waste	Water Quality	Housing
Revenue	\$ 484,458	\$ 42,500	\$ 5,239	\$ 5,749	\$ 751
Expense	464,146	33,490	3,665	4,414	959
Operating income (loss)	<u>\$ 20,312</u>	<u>\$ 9,010</u>	<u>\$ 1,574</u>	<u>\$ 1,335</u>	<u>\$ (208)</u>

Financial Analysis of the City's Funds

The City of Chattanooga uses fund accounting to help it control and manage money for particular purposes or to demonstrate compliance with legal requirements. The following provides a more detailed analysis of the City's funds.

Governmental Funds

Governmental funds focus on providing information on the near-term flow of resources. The City's governmental funds reported a combined fund balance of \$92.6 million at the end of the fiscal year. 55.1 percent of this amount (\$51.1 million) is available for day-to-day operations (unreserved, undesignated fund balance). All of the governmental funds reported a positive ending fund balance. Information about the major governmental funds is presented below.

General Fund

This is the chief operating fund of the City of Chattanooga. Total fund balance of the City's General Fund decreased by 5.5 percent or \$3.0 million to \$52.1 million during the fiscal year. Unreserved fund balance was \$48.6 million, of which \$7.8 million is designated for future spending. During the fiscal year unreserved, undesignated fund balance decreased \$4.3 million. Key factors are as follows:

- Total revenues increased \$6.1 million, 3.3 percent, from the prior year with most categories of revenue seeing an increase.
 - o During the current fiscal year property tax increased \$1.9 million, 2.1 percent over last year as a result of increasing property values.
 - o Licenses and permits were \$120,000 lower, 2.5 percent, primarily due to a decrease in building permits but partially offset by new parking meter revenue.
 - o Intergovernmental revenues increased \$1.6 million or 2.7 percent over the prior year with state income tax being the largest growth component. State income tax increased \$784,000, 19.0 percent, while County-wide sales tax increased \$450,000 or 1.7 percent. The one-half cent County-wide sales tax increased 1.9 percent or \$201,000. These increases are directly related to consumer spending and increased dividends and money market returns for Chattanooga investors.
 - o Charges for services increased 10.1 percent or \$451,000. During the year City court fees increased \$371,000 or 30.7 percent due to stepped up police enforcement. Revenue from the City's golf courses increased \$150,000, 8.3 percent, as a result of a competing course becoming a private course.
 - o Fines, Forfeitures and Penalties up \$1.1 million or 75.1 percent as a result of high volume of fines processed at City court but predominately by \$821,000 of fines from the new automated traffic cameras.
 - o Interest income decreased \$595,000, 13.1 percent, due to the stressed interest rate environment.
 - o Miscellaneous revenue increased \$450,000 or 9.2 percent due to various small programs that vary from year to year. Another factor was a change in accounting for zoo admissions and gift shop revenue from a liability to revenue.
- Total expenditures increased \$6.4 million, 4.0 percent, from the previous year.
 - o Salary costs rose by \$2.2 million or 3.0 percent over last year due to a new pay plan and salary increases. Fringe benefit costs increased as well, increasing \$3.0 million or 12.2 percent. This included increased health insurance costs and an increase in Fire & Police contributions. The pension contribution increase was an additional \$1.4 million, 20.4 percent.
 - o Costs for vehicles rose during the year. Fuel increased 25.6 percent, \$665,000, while the new fleet leasing program cost an additional \$1.6 million. The leasing program, which includes a replacement component which is accumulating the purchase price to buy new vehicles as old program vehicles are retired.
 - o Electricity for buildings and street lights rose 8.8 percent of \$349,000.
 - o These increased costs were partially offset by a \$1.9 million decrease in Southside capital lease payments. This is due to increased funding provided by The Chattanooga for debt service payments.
 - o For the second year, General Fund paid \$2.0 million to help partially fund the OPEB trust. See Note 10 for additional information regarding the City's compliance with the Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions".

Capital Projects Fund

This fund focuses on project-to-date costs for many projects within the City. At the end of the year, the fund reported \$17.0 million in fund balance all of which was reserved for completion of projects already begun. Fund balance for this fund fluctuates from year to year based on debt issued and expenditures for projects; new debt increases fund balance while construction decreases it. For fiscal year 2008 there was a \$3.2 million decrease. Analysis of project income and expenditures follows.

- Cash inflows for the year include \$3.9 million in notes payable proceeds, \$2.4 million in contributions, \$1.1 million in sale of property and \$14.9 million in transfers from General Fund.
- Current year expenditures of \$23.3 million include \$8.9 million for park facilities (including Warner Park and Chattanooga Zoo improvements and construction-in-progress for Summit of Softball), \$4.5 million for equipment and software, \$4.4 million for street improvements and a \$2.0 million toward the completion of the McKamey Animal Care and Adoption Center. An additional \$2.6 million was transferred to the internal service fund as additional start-up costs for the vehicle lease program.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. As the City completed the fiscal year its proprietary funds, which include both enterprise funds and an internal service fund, had combined net assets of \$545.0 million.

- \$9.1 million is available to meet on-going obligations with \$288.4 million invested in capital assets. An additional \$247.5 million restricted for future use.
- Net assets of the enterprise funds rose \$21.1 million, 4.1 percent. Factors concerning the finances of the enterprise funds have already been addressed in the discussion of the City's business-type activities.
- The internal service fund serves City government by providing fuel, vehicle maintenance, fleet leasing and by accounting for the City's self-insurance. Fund balance for this fund increased \$7.1 million primarily as a result of the fleet leasing program adding \$4.9 million to capital assets for future vehicle purchases.
- Because the internal service fund primarily serves the governmental funds, its information is included in governmental activities in the government-wide financial statements.

General Fund Budgetary Highlights

The City's budget ordinance provides for the basic functions of City government, encompassing all major departments and agencies of the City. There were no differences between original and final budgets since reallocations by the City Finance Officer within the General Fund are authorized in the budget ordinance.

- When comparing final budgeted revenues to actual, there was a \$4.7 million surplus for the year with all major revenue categories higher than budget. Property tax collections for fiscal year 2008 exceeded budget expectations; the same is true of the city allocation of the state income tax. As a result, taxes and intergovernmental revenues exceeded budget by \$1.6 million and \$1.0 million, respectively. Investment income was \$906,000 more than anticipated. The City employs conservative estimates when developing budget.
- Expenditures were less than budgetary estimates by \$3.5 million. All departments were below budget as a result of the city's performance management program. Salaries and benefits were under budget by \$1.8 million; even after a \$2.0 million unbudgeted accrued contribution to the OPEB trust as a result of vacancies.
- The General Fund budget anticipated use of \$13.5 million of fund balance during the year; instead only \$3.0 was used. This surplus will be used for capital.

Capital Asset and Debt Administration

Capital Assets

At the end of this year, the City had \$2.2 billion (net of accumulated depreciation) invested in capital assets, an increase of \$30.4 million or 1.4 percent. This investment includes land, buildings, utility system improvements, machinery and equipment, park facilities and infrastructure. The

following table shows the investment in capital assets by both governmental activities and business-type activities.

City of Chattanooga's Capital Assets (net of depreciation, in thousands of dollars)						
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Non-depreciable:						
Land & Easements	\$1,023,642	\$ 999,522	\$ 15,332	\$ 14,722	\$1,038,974	\$1,014,244
Work in progress	15,136	9,868	31,096	19,726	46,232	29,594
Depreciable:						
Buildings & Improvement	120,874	126,031	70,222	74,207	191,096	200,238
Vehicles & Machinery	28,654	28,680	38,337	38,110	66,991	66,790
Infrastructure	358,056	371,610	543,487	531,938	901,543	903,548
Total	<u>\$1,546,362</u>	<u>\$1,535,711</u>	<u>\$ 698,474</u>	<u>\$ 678,703</u>	<u>\$2,244,836</u>	<u>\$2,214,414</u>

Highlights for this year's major capital asset additions:

- Land purchases include \$16.9 million for the donated roadbeds plus land for road widening projects.
- The major additions to work-in-progress are \$700,000 for continued work on the Hope VI project, \$2.0 million for McKamey Animal Care and Adoption Center and \$1.8 million for improvements at the Chattanooga Zoo
- Equipment purchases include \$3.1 million for fleet replacement.
- Street improvements of \$2.6 million were the major additions to infrastructure. An additional \$9.1 million of donated streets were accepted from contractors.
- The Electric Power Board invested \$30.6 million in plant assets for the year. This includes \$26.2 million in power distribution systems and \$4.4 million for communications improvements.
- \$4.4 million was capitalized as new infrastructure for the Interceptor Sewer System.
- The City Landfill capitalized \$2.0 million in infrastructure for lining the expansion of the landfill.
- \$2.1 was capitalized as new infrastructure for the Water Quality System.

The capital budget for fiscal year 2009 anticipates spending \$33.8 million for various capital projects including \$6.4 million for expansion and upgrade of the City's parks and park facilities; \$11.3 million for various public works projects such as paving, street improvement, curbs, gutters and sidewalks, and equipment replacement; \$980,000 for fire equipment and building improvements; \$852,000 for Police projects; \$3.5 million for CARTA for North Shore Parking garage and parking meters; computer software replacement and upgrades \$3.6 million, \$315,000 improvements for the Memorial Auditorium and Tivoli Theatre, \$300,000 for solid waste disposal and recycling, \$775,000 million for various Storm Water projects and \$2.9 million for building and waterfront upgrades. \$15.0 million in bonds has been approved to help finance a portion of these projects.

More detailed information about the City's capital assets is presented in the Note 7 to the financial statements.

Debt Administration

At year-end the City had \$706.3 million in long-term debt outstanding. This is a \$201.2 million increase, 39.8 percent, from last year. Detail is shown in the table and narrative that follow.

City of Chattanooga's Long-term Debt

(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
General obligation bonds (backed by the City)	\$ 130,844	\$136,099	\$ 96,052	\$106,881	\$226,896	\$242,980
Revenue bonds (backed by specific revenues)	-	-	289,660	71,430	289,660	71,430
Notes payable	32,593	27,592	44,406	47,392	76,999	74,984
Capital leases	112,604	115,514	171	194	112,775	115,708
Total	<u>\$ 276,041</u>	<u>\$279,205</u>	<u>\$430,289</u>	<u>\$225,897</u>	<u>\$706,330</u>	<u>\$505,102</u>

- The City of Chattanooga maintains an “AA+” rating from both Standard & Poor’s which was recently upgraded and an “AA” rating from Fitch Investor’s Service which was recently affirmed for general obligation debt.
- City Charter limits the amount of net general obligation debt a City can issue to 10 percent of the assessed value of all taxable property within the City’s corporate limits. For the current fiscal year that limit is \$404.9 million. The City’s general obligation debt, net of self-supporting debt of \$96.3 million is well within that limit.

During the year the City issued the following new debt:

- The EPB issued \$219.8 million in revenue bonds to finance the Smart Grid. The bonds will be repaid by operations of EPB, a business-type activity.
- The City obtained a HUD Section 108 loan in the amount of \$4.6 million. The loan paid off the \$2.3 million balance on the Fannie Mae loan; the remaining \$2.3 million will be used for public infrastructure projects in the Brownfields area. The loan, a governmental activity, will be repaid by Community Development Block Grant program revenue. Currently \$4.6 million is outstanding.
- Additional draws of \$3.8 million were made on two state revolving loan funds, both for governmental activities capital. At year-end there was \$26.7 million outstanding.
- Two property loans were entered into, both are for governmental activities. The first is a \$1 million, four-year agreement. The second is a \$556,000, five-year agreement swapping parking revenue for loan payment.
- There was no new debt issued for business-type activities Interceptor Sewer, Solid Waste or Water Quality. All projects during fiscal year 2008 were financed through fund balance.

More detailed information about the City’s long-term liabilities is presented in the Note 8 to the financial statements.

Economic Factors and Next Year’s Budgets and Rates

The following factors were taken into account when adopting the General Fund budget for 2009:

- The City uses Conservative forecasts for budgeting purposes. The primary source of funds remains property taxes which are budgeted at 95 percent of the tax levy. For the 2009 budget this results in an increase in property taxes.
- Sales tax revenue is expected to reflect the weakening economy for 2009 which is reflected in lower budget estimates for both the City allocation of the State sales tax and the County-wide sales tax.

- Interest revenues are expected to decline.
- Competitive pay for employees, employee health care, retiree benefits and other post-employment benefits as well as uncertain fuel and energy costs present a continuing challenge.

Anticipated revenues in the General Fund budget are \$199.9 million, up 7.46 percent from the 2008 budget. Property taxes are projected to grow by 2.7 percent or \$2.4 million. The City allocation of State sales tax and County-wide sales tax collections are projected to decline by 0.5 percent and 0.7 percent, respectively, based on a weakening economy. Interest earnings are estimated to decrease 44.6 percent due to a decrease in available funds and low interest rates.

Budgeted expenditures are expected to increase by 7.46 percent from \$186.1 million to \$199.9 million. Salaries and fringe benefits are expected to increase by 5.0 percent primarily due to the new pay plan. The City will continue the vacancy control policy to manage the costs associated with salaries and benefits.

A modest increase in net assets for the City's business-type activities is expected during FY 2009.

The City is developing a contingency plan to address the decline in estimated/budgeted revenues resulting from the current economic recession.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the assets it receives. If you have questions about this report or need additional financial information, contact:

City of Chattanooga Finance Department

101 East 11th Street; Suite 101

Chattanooga, Tennessee 37402

(423) 757-5232

www.chattanooga.gov

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF NET ASSETS
June 30, 2008

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 52,921,490	\$ 137,121,088	\$ 190,042,578	\$ 9,666,377
Investments	42,608,684	199,660,810	242,269,494	724,048
Receivables, net of allowance for uncollectibles	123,884,479	56,890,837	180,775,316	5,617,571
Net investment in capital lease	-	-	-	111,411,938
Internal balances	3,469,000	(3,469,000)	-	-
Due from component units	376,745	-	376,745	-
Deferred charges	1,404,800	4,182,789	5,587,589	2,162,271
Inventories	1,728,609	9,209,672	10,938,281	304,803
Prepaid items	8,000	1,488,260	1,496,260	645,576
Other assets	-	5,386,000	5,386,000	-
Restricted assets:				
Cash and cash equivalents	325,213	34,284	359,497	836,978
Investments	6,687,509	7,582,531	14,270,040	13,969,778
Endowment investments	3,297,545	-	3,297,545	-
Receivables	-	149,658	149,658	104,011
Net pension assets	7,589,584	-	7,589,584	-
Equity interest in joint venture	8,357,000	-	8,357,000	-
Land and other nondepreciable assets	1,038,778,484	46,427,858	1,085,206,342	34,955,647
Other capital assets, net of accumulated depreciation	507,584,137	652,046,389	1,159,630,526	56,442,723
Total assets	1,799,021,279	1,116,711,176	2,915,732,455	236,841,721
LIABILITIES				
Accounts payable and accrued liabilities	27,344,356	96,417,714	123,762,070	5,669,141
Customer deposits	-	16,321,000	16,321,000	-
Due to primary government	-	-	-	376,745
Contracts payable	585,644	1,305,347	1,890,991	1,472,142
Unearned revenue	91,423,374	-	91,423,374	3,780
Accrued closure and post-closure care	-	10,200,052	10,200,052	-
Net pension obligations	-	3,259,000	3,259,000	156,490
Accrued postemployment benefits	9,521,039	9,121,000	18,642,039	-
Other liabilities	-	8,506,628	8,506,628	-
Long-term liabilities:				
Due within one year	17,664,058	17,926,750	35,590,808	3,025,000
Due in more than one year	276,432,524	423,116,817	699,549,341	133,631,455
Total liabilities	422,970,995	586,174,308	1,009,145,303	144,334,753
NET ASSETS				
Invested in capital assets, net of related debt	1,276,307,361	282,079,374	1,558,386,735	78,828,031
Restricted for:				
Capital projects	7,012,722	-	7,012,722	-
Debt service	1,892,047	-	1,892,047	14,629,498
Renewal and replacement	-	247,476,571	247,476,571	766,225
Permanent endowments:				
Expendable	52,324	-	52,324	-
Nonexpendable	3,338,539	-	3,338,539	-
Unrestricted	87,447,291	980,923	88,428,214	(1,716,786)
Total net assets	\$1,376,050,284	\$ 530,536,868	\$1,906,587,152	\$ 92,506,968

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental activities:				
General government	\$ 75,282,935	\$ 11,592,555	\$ 6,363,647	\$ 610,348
Public safety	72,595,048	807,649	654,230	168,744
Public works	55,935,906	2,523,650	4,621,854	26,145,460
Parks, recreation, education, arts & culture	17,370,233	4,132,026	1,080,957	2,097,224
Social services	19,072,003	1,203,478	13,532,885	-
Interest on long-term debt	6,902,290	-	-	-
Total governmental activities	247,158,415	20,259,358	26,253,573	29,021,776
Business-type activities:				
Electric utility, including communications	472,115,000	484,458,000	-	1,668,000
Sewer	37,859,312	42,473,352	-	-
Solid waste/sanitation	4,973,585	5,171,586	68,052	-
Water quality management	5,058,524	5,627,095	121,921	-
Housing management	1,003,096	751,350	-	-
Total business-type activities	521,009,517	538,481,383	189,973	1,668,000
TOTAL PRIMARY GOVERNMENT	\$ 768,167,932	\$ 558,740,741	\$ 26,443,546	\$ 30,689,776
Component units:				
Airport authority	\$ 9,450,068	\$ 7,560,415	\$ -	\$ 7,722,922
Transportation authority	19,908,715	5,648,198	6,512,783	6,120,997
Downtown redevelopment	17,546,537	17,966,823	-	-
TOTAL COMPONENT UNITS	\$ 46,905,320	\$ 31,175,436	\$ 6,512,783	\$ 13,843,919
General revenues:				
Property taxes				
Liquor and beer taxes				
Other taxes				
Grants and contributions not allocated to specific programs:				
County-wide sales taxes				
City allocation of state sales taxes				
City allocation of state income taxes				
Unrestricted investment earnings				
Miscellaneous				
Loss on equity interest in joint venture				
Endowment contributions				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets, beginning				
Net assets, ending				

The Notes to Basic Financial Statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (56,716,385)	\$ -	\$ (56,716,385)	\$ -
(70,964,425)	-	(70,964,425)	-
(22,644,942)	-	(22,644,942)	-
(10,060,026)	-	(10,060,026)	-
(4,335,640)	-	(4,335,640)	-
(6,902,290)	-	(6,902,290)	-
(171,623,708)	-	(171,623,708)	-
-	14,011,000	14,011,000	-
-	4,614,040	4,614,040	-
-	266,053	266,053	-
-	690,492	690,492	-
-	(251,746)	(251,746)	-
-	19,329,839	19,329,839	-
(171,623,708)	19,329,839	(152,293,869)	-
-	-	-	5,833,269
-	-	-	(1,626,737)
-	-	-	420,286
-	-	-	4,626,818
91,847,883	-	91,847,883	-
6,951,057	-	6,951,057	-
13,111,906	-	13,111,906	-
37,371,342	-	37,371,342	-
11,185,750	-	11,185,750	-
4,909,130	-	4,909,130	-
4,104,441	5,249,845	9,354,286	809,346
3,312,122	816,803	4,128,925	1,387,010
(439,341)	-	(439,341)	-
19,306	-	19,306	-
4,321,107	(4,321,107)	-	-
176,694,703	1,745,541	178,440,244	2,196,356
5,070,995	21,075,380	26,146,375	6,823,174
1,370,979,289	509,461,488	1,880,440,777	85,683,794
<u>\$ 1,376,050,284</u>	<u>\$ 530,536,868</u>	<u>\$ 1,906,587,152</u>	<u>\$ 92,506,968</u>

CITY OF CHATTANOOGA, TENNESSEE

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 13,645,111	\$ 9,703,036	\$15,306,518	\$ 38,654,665
Investments	39,751,735	8,096,275	4,745,728	52,593,738
Receivables, net of allowance for uncollectibles				
Taxes	91,242,269	-	-	91,242,269
Accounts	-	71,746	91,335	163,081
Notes	1,249,261	3,038,669	-	4,287,930
Other	4,608,007	33,161	-	4,641,168
Due from other funds	-	-	3,177,810	3,177,810
Due from component units	375,000	-	-	375,000
Due from other governments	19,196,344	293,236	3,854,549	23,344,129
Inventories	785,099	-	-	785,099
Prepaid items	8,000	-	-	8,000
Total assets	<u>\$170,860,826</u>	<u>\$21,236,123</u>	<u>\$27,175,940</u>	<u>\$219,272,889</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 11,786,896	\$ 3,056,423	\$ 2,283,004	\$ 17,126,323
Due to other funds	2,618,879	558,931	-	3,177,810
Due to other governments	1,326,618	40,086	-	1,366,704
Deferred revenue	103,033,564	-	1,401,010	104,434,574
Contracts payable	-	585,644	-	585,644
Total liabilities	<u>118,765,957</u>	<u>4,241,084</u>	<u>3,684,014</u>	<u>126,691,055</u>
Fund balances:				
Reserved for:				
Encumbrances	1,493,313	-	263,039	1,756,352
Library endowment	-	-	3,338,539	3,338,539
Inventories	785,099	-	-	785,099
Prepaid items	8,000	-	-	8,000
Capital improvements	-	16,995,039	-	16,995,039
Notes receivable	1,249,261	-	-	1,249,261
Debt service escrow	-	-	1,892,047	1,892,047
Unreserved, designated for:				
Debt service	-	-	7,032,956	7,032,956
Special revenue	-	-	683,661	683,661
Subsequent years' expenditures	7,812,678	-	-	7,812,678
Unreserved, undesignated, reported in:				
General fund	40,746,518	-	-	40,746,518
Special revenue	-	-	10,229,360	10,229,360
Permanent funds	-	-	52,324	52,324
Total fund balances	<u>52,094,869</u>	<u>16,995,039</u>	<u>23,491,926</u>	<u>92,581,834</u>
Total liabilities and fund balances	<u>\$170,860,826</u>	<u>\$21,236,123</u>	<u>\$27,175,940</u>	<u>\$219,272,889</u>

The Notes to Basic Financial Statements are an integral part of this statement

CITY OF CHATTANOOGA, TENNESSEE

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2008

Differences in amounts reported for governmental activities in the statement of net assets on page 1:

Fund balances - total governmental funds	\$ 92,581,834
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in government activities are not financial resources and, therefore, are not reported in the funds.	1,540,000,110
Certain revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.	13,011,200
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	3,469,000
The General Pension Plan has been funded in excess of annual required contributions, creating a net pension asset. This asset is not a currently available financial resource and is not reported in the funds.	7,589,584
The equity interest in the joint venture represents an interest in the capital assets of the joint venture. This interest is not a financial asset and, therefore, is not reported in the funds.	8,357,000
Internal service fund is used by management to charge the costs of fleet management and risk management activities to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	14,430,022
The Other Postemployment Benefits Plan has not been funded to meet annual requirement contributions, creating an accrued postemployment benefits liability. This liability is not due and payable in the current period and, therefore, is not reported in the funds.	(9,521,039)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets. This item consists of the following:	
General obligation serial bonds	\$(130,843,479)
Add net deferred refunding and original premiums and discounts	(1,027,304)
Less deferred charges	1,404,800
Notes payable	(32,593,423)
Capital leases	(112,603,776)
Compensated absences	(16,566,635)
Accrued interest payable	(1,637,610)
	<u>(293,867,427)</u>
Net assets of governmental activities	<u>\$1,376,050,284</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

Year Ended June 30, 2008

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$105,484,765	\$ -	\$ 4,067,597	\$109,552,362
Licenses and permits	4,633,755	-	-	4,633,755
Intergovernmental	61,140,654	146,722	22,522,750	83,810,126
Charges for services	4,929,419	-	298,345	5,227,764
Fines, forfeitures, and penalties	2,493,879	-	-	2,493,879
Investment income	3,936,266	422,938	177,015	4,536,219
Contributions and donations	97,766	2,351,045	120,018	2,568,829
Miscellaneous	5,359,967	1,156,402	1,815,463	8,331,832
Total revenues	<u>188,076,471</u>	<u>4,077,107</u>	<u>29,001,188</u>	<u>221,154,766</u>
EXPENDITURES				
Current:				
General government	46,368,522	-	18,783,583	65,152,105
Public safety	72,346,019	-	314,861	72,660,880
Public works	30,373,073	-	4,836,014	35,209,087
Parks, recreation, education, arts & culture	16,617,304	-	-	16,617,304
Community development	-	-	3,288,257	3,288,257
Capital outlay/capital assets	-	23,230,600	1,122,378	24,352,978
Debt service:				
Principal retirement	-	-	10,839,021	10,839,021
Interest and fiscal charges	-	34,165	6,973,728	7,007,893
Total expenditures	<u>165,704,918</u>	<u>23,264,765</u>	<u>46,157,842</u>	<u>235,127,525</u>
Excess (deficiency) of revenues over (under) expenditures	<u>22,371,553</u>	<u>(19,187,658)</u>	<u>(17,156,654)</u>	<u>(13,972,759)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	4,973,059	15,829,203	20,193,259	40,995,521
Transfers out	(30,380,092)	(3,677,942)	(7,083,245)	(41,141,279)
Issuance of notes	-	3,869,635	4,576,000	8,445,635
Total other financing sources (uses)	<u>(25,407,033)</u>	<u>16,020,896</u>	<u>17,686,014</u>	<u>8,299,877</u>
Net change in fund balance	(3,035,480)	(3,166,762)	529,360	(5,672,882)
FUND BALANCE, beginning	<u>55,130,349</u>	<u>20,161,801</u>	<u>22,962,566</u>	<u>98,254,716</u>
FUND BALANCE, ending	<u>\$ 52,094,869</u>	<u>\$ 16,995,039</u>	<u>\$ 23,491,926</u>	<u>\$ 92,581,834</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

Differences in amounts reported for governmental activities in the statement of activities on pages 2 and 3:

Net change in fund balances - total governmental funds	\$ (5,672,882)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlay expenditures in governmental funds, that meet the capitalization threshold, are shown as capital assets in the statement of net assets.	22,026,873
Depreciation expense on governmental capital assets are included in the governmental activities in the statement of activities.	(38,839,866)
Contributions of capital assets are not reflected in the governmental funds, but are reported in the statement of activities. This item consists of streets contributed by developers.	25,954,500
The net effect of various transactions involving capital assets is to decrease net assets.	(2,155,944)
The loss on equity interest in joint venture is reported in the statement of activities. This loss does not provide current financial resources and is not reflected in the governmental funds.	(439,341)
Proceeds of long-term debt (e.g., bonds, notes) provide financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and deferred amounts on refundings when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	4,674,223
The net revenues of internal service funds are reported with governmental activities.	7,086,369
Certain items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditure in the governmental funds.	(10,065,404)
Governmental revenues that provide current financial resources are reported in the governmental funds, while revenues that will not be collected for several months after the fiscal year are deferred. The statement of activities includes certain revenues that do not provide current financial resources.	<u>2,502,467</u>
Change in net assets of governmental activities	<u>\$ 5,070,995</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Taxes	\$103,895,409	\$103,895,409	\$105,484,765	\$ 1,589,356
Licenses and permits	4,614,045	4,614,045	4,633,755	19,710
Intergovernmental	60,163,909	60,163,909	61,140,654	976,745
Charges for services	4,401,118	4,401,118	4,929,419	528,301
Fines, forfeitures, and penalties	2,236,429	2,236,429	2,493,879	257,450
Investment income	3,030,513	3,030,513	3,936,266	905,753
Contributions and donations	105,376	105,376	97,766	(7,610)
Miscellaneous	4,905,991	4,905,991	5,359,967	453,976
Total revenues	<u>183,352,790</u>	<u>183,352,790</u>	<u>188,076,471</u>	<u>4,723,681</u>
EXPENDITURES				
General government	45,868,616	45,868,616	42,908,116	(2,960,500)
Finance and Administration	4,004,990	4,004,990	3,963,069	(41,921)
Police	44,495,660	44,495,660	44,349,085	(146,575)
Fire	28,296,812	28,296,812	28,118,976	(177,836)
Public Works	30,546,099	30,546,099	30,389,049	(157,050)
Parks, recreation, education, arts & culture	16,642,311	16,642,311	16,578,526	(63,785)
Total expenditures	<u>169,854,488</u>	<u>169,854,488</u>	<u>166,306,821</u>	<u>(3,547,667)</u>
Excess of revenues over expenditures	<u>13,498,302</u>	<u>13,498,302</u>	<u>21,769,650</u>	<u>8,271,348</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	3,437,122	3,437,122	4,973,059	1,535,937
Transfers out	<u>(30,410,388)</u>	<u>(30,410,388)</u>	<u>(30,380,092)</u>	<u>30,296</u>
Total other financing sources (uses)	<u>(26,973,266)</u>	<u>(26,973,266)</u>	<u>(25,407,033)</u>	<u>1,566,233</u>
Net change in fund balance	<u>\$ (13,474,964)</u>	<u>\$ (13,474,964)</u>	<u>(3,637,383)</u>	<u>\$ 9,837,581</u>
Adjustment for encumbrances			<u>601,903</u>	
Net change in fund balance (GAAP basis)			<u>(3,035,480)</u>	
FUND BALANCE at beginning of year (GAAP basis)			<u>55,130,349</u>	
FUND BALANCE at end of year (GAAP basis)			<u>\$ 52,094,869</u>	
EXPLANATION OF DIFFERENCES:				
REVENUES				
Actual amounts (budgetary basis) from the budgetary comparison schedule			\$188,076,471	
Differences - none			<u>-</u>	
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds			<u>\$188,076,471</u>	
EXPENDITURES				
Actual amounts (budgetary basis) from the budgetary comparison schedule			\$166,306,821	
Adjustment for encumbrances			<u>(601,903)</u>	
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds			<u>\$165,704,918</u>	

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

June 30, 2008

	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		Governmental Activities - Internal Service Fund
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Water Quality Management	Housing Management	Total	
ASSETS							
CURRENT ASSETS							
Cash and cash equivalents	\$ 121,202,000	\$ 2,422,129	\$ 8,353,418	\$ 5,060,687	\$ 82,854	\$ 137,121,088	\$ 14,592,038
Investments	165,046,000	34,614,810	-	-	-	199,660,810	-
Receivables:							
Customer service	52,337,000	4,414,437	63,281	776,877	-	57,591,595	153,734
Other	168,000	197,432	-	-	34,274	399,706	-
Less allowance for doubtful accounts	(748,000)	(350)	(75)	(402,030)	-	(1,150,455)	-
Inventories	8,566,000	643,672	-	-	-	9,209,672	943,510
Prepaid items	1,486,000	-	-	-	2,260	1,488,260	-
Due from component units	-	-	-	-	-	-	1,745
Due from other governments	-	-	49,991	-	-	49,991	52,168
Other current assets	3,011,000	-	-	-	-	3,011,000	-
Total current assets	351,068,000	42,292,130	8,466,615	5,435,534	119,388	407,381,667	15,743,195
NONCURRENT ASSETS							
Restricted assets:							
Cash and cash equivalents	-	-	-	-	34,284	34,284	-
Investments	-	1,548,391	6,034,140	-	-	7,582,531	-
Accounts receivable	-	-	149,658	-	-	149,658	-
Total restricted assets	-	1,548,391	6,183,798	-	34,284	7,766,473	-
Capital assets:							
Land	4,080,000	7,992,355	1,517,514	1,714,989	27,000	15,331,858	-
Buildings and improvements	47,703,000	41,477,362	1,826,887	-	6,804,461	97,811,710	598,800
Vehicles and machinery	28,573,000	31,597,365	5,483,899	1,613,993	9,420	67,277,677	8,540,987
Construction in progress	31,096,000	-	-	-	-	31,096,000	-
Electric system	399,442,000	-	-	-	-	399,442,000	-
Solid waste system	-	-	9,250,985	-	-	9,250,985	-
Sewer system	-	411,426,758	-	-	-	411,426,758	-
Water quality system	-	-	-	46,526,642	-	46,526,642	-
Communications system	31,819,000	-	-	-	-	31,819,000	-
	542,713,000	492,493,840	18,079,285	49,855,624	6,840,881	1,109,982,630	9,139,787
Less accumulated depreciation	(207,371,000)	(187,256,971)	(5,858,404)	(9,452,794)	(1,569,214)	(411,508,383)	(2,777,276)
Net capital assets	335,342,000	305,236,869	12,220,881	40,402,830	5,271,667	698,474,247	6,362,511
Other assets:							
Deferred charges	2,851,000	879,842	313,985	137,962	-	4,182,789	-
TVA discounted energy units	2,375,000	-	-	-	-	2,375,000	-
Total other assets	5,226,000	879,842	313,985	137,962	-	6,557,789	-
Total noncurrent assets	340,568,000	307,665,102	18,718,664	40,540,792	5,305,951	712,798,509	6,362,511
Total assets	\$ 691,636,000	\$ 349,957,232	\$ 27,185,279	\$ 45,976,326	\$ 5,425,339	\$ 1,120,180,176	\$ 22,105,706

(continued on next page)

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	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		Governmental Activities - Internal Service Fund
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Water Quality Management	Housing Management	Total	
LIABILITIES							
CURRENT LIABILITIES							
Current maturities of long-term liabilities	\$ 2,309,000	\$ 11,312,900	\$ 2,556,972	\$ 1,747,878	\$ -	\$ 17,926,750	\$ 159,541
Accounts payable and accrued liabilities	95,558,000	3,716,510	679,364	585,964	2,605,876	103,145,714	1,435,214
Accrued claims	-	-	-	-	-	-	5,778,505
Customer deposits	1,808,000	-	-	-	-	1,808,000	-
Contracts payable	-	1,305,347	-	-	-	1,305,347	-
Conservation advances	178,000	-	-	-	-	178,000	-
Other current liabilities	5,946,000	-	-	-	-	5,946,000	-
Total current liabilities	105,799,000	16,334,757	3,236,336	2,333,842	2,605,876	130,309,811	7,373,260
LONG-TERM LIABILITIES							
Notes and capital leases payable	586,000	39,352,319	850,696	670,083	-	41,459,098	-
Compensated absences	741,000	575,606	48,550	131,040	-	1,496,196	302,424
Customer deposits	14,513,000	-	-	-	-	14,513,000	-
Accrued closure and post closure care	-	-	10,200,052	-	-	10,200,052	-
Revenue bonds payable	288,060,000	-	-	-	-	288,060,000	-
Original issue premium	9,004,000	-	-	-	-	9,004,000	-
Deferred refunding	(590,000)	-	-	-	-	(590,000)	-
General obligation bonds payable	-	47,820,059	23,962,413	11,519,829	-	83,302,301	-
Deferred refunding	-	(2,330,305)	(737,780)	(456,983)	-	(3,525,068)	-
Original issue premium	-	2,161,789	1,105,855	642,646	-	3,910,290	-
Other noncurrent liabilities	2,349,000	-	-	-	33,628	2,382,628	-
Accrued postemployment benefits	9,121,000	-	-	-	-	9,121,000	-
Total long-term liabilities	323,784,000	87,579,468	35,429,786	12,506,615	33,628	459,333,497	302,424
Total liabilities	429,583,000	103,914,225	38,666,122	14,840,457	2,639,504	589,643,308	7,675,684
NET ASSETS (DEFICIT)							
Invested in capital assets, net of related debt	38,716,000	206,371,433	8,002,351	26,244,026	2,745,564	282,079,374	6,356,512
Restricted for renewal and replacement	223,155,000	11,970,041	11,015,585	1,335,945	-	247,476,571	-
Unrestricted	182,000	27,701,533	(30,498,779)	3,555,898	40,271	980,923	8,073,510
Total net assets (deficit)	\$262,053,000	\$246,043,007	\$(11,480,843)	\$31,135,869	\$2,785,835	\$530,536,868	\$ 14,430,022

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS
Year Ended June 30, 2008

	Business-type Activities - Enterprise Funds						
	Major Funds				Other Fund		Governmental Activities - Internal Service Fund
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Water Quality Management	Housing Management	Total	
OPERATING REVENUES							
Charges for sales and services:							
Electric sales	\$ 460,193,000	\$ -	\$ -	\$ -	\$ -	\$ 460,193,000	\$ -
Communications revenues	15,513,000	-	-	-	-	15,513,000	-
Sewer charges	-	42,473,352	-	-	-	42,473,352	-
Waste charges	-	-	5,171,586	-	-	5,171,586	-
Water quality management fees	-	-	-	5,627,095	-	5,627,095	-
Rent	-	-	-	-	730,040	730,040	-
Other services	8,752,000	-	-	-	21,310	8,773,310	40,081,751
Other	-	-	68,052	121,921	-	189,973	-
Total operating revenues	484,458,000	42,473,352	5,239,638	5,749,016	751,350	538,671,356	40,081,751
OPERATING EXPENSES							
Power purchases	375,092,000	-	-	-	-	375,092,000	-
Other electric operations	37,967,000	-	-	-	-	37,967,000	-
Communications operations	9,753,000	-	-	-	-	9,753,000	-
Sewer plant operations	-	21,438,602	-	-	-	21,438,602	-
Solid waste operations	-	-	2,836,263	-	-	2,836,263	-
Water quality management operations	-	-	-	3,408,004	-	3,408,004	-
Pump station operations	-	2,401,054	-	-	-	2,401,054	-
Housing management operations	-	-	-	-	715,753	715,753	-
Municipal garage operations	-	-	-	-	-	-	4,267,715
Maintenance and repairs	13,571,000	-	-	-	-	13,571,000	6,484,130
Depreciation and amortization	20,423,000	9,652,569	608,631	1,006,177	243,752	31,934,129	979,222
Closure/postclosure costs	-	-	220,391	-	-	220,391	-
Liability insurance	-	-	-	-	-	-	718,507
On-site medical services	-	-	-	-	-	-	24,855,673
Other	7,340,000	-	-	-	-	7,340,000	-
Total operating expenses	464,146,000	33,492,225	3,665,285	4,414,181	959,505	506,677,196	37,305,247
OPERATING INCOME (LOSS)	20,312,000	8,981,127	1,574,353	1,334,835	(208,155)	31,994,160	2,776,504
NONOPERATING REVENUES (EXPENSES)							
Investment income	2,984,000	1,630,150	631,159	2,436	2,100	5,249,845	-
Interest expense	(5,279,000)	(4,367,087)	(1,308,300)	(644,343)	(43,591)	(11,642,321)	-
Other income (expense)	(2,847,000)	27,410	12,016	-	777,377	(2,030,197)	-
Total nonoperating revenues (expenses)	(5,142,000)	(2,709,527)	(665,125)	(641,907)	735,886	(8,422,673)	-
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	15,170,000	6,271,600	909,228	692,928	527,731	23,571,487	2,776,504
Capital contributions	1,668,000	-	-	-	-	1,668,000	-
Transfers in	-	-	-	683,952	-	683,952	4,309,865
Transfers out	(3,312,000)	-	-	-	(1,536,059)	(4,848,059)	-
CHANGE IN NET ASSETS	13,526,000	6,271,600	909,228	1,376,880	(1,008,328)	21,075,380	7,086,369
NET ASSETS (DEFICIT), beginning	248,527,000	239,771,407	(12,390,071)	29,758,989	3,794,163	509,461,488	7,343,653
NET ASSETS (DEFICIT), ending	\$ 262,053,000	\$ 246,043,007	\$ (11,480,843)	\$ 31,135,869	\$ 2,785,835	\$ 530,536,868	\$ 14,430,022

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS
Year Ended June 30, 2008

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Fund
	Major Funds				Other Fund		
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Water Quality Management	Housing Management	Total	
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from customers and users	\$ 479,661,000	\$ 42,739,607	\$ 5,190,154	\$ 5,826,292	\$ 785,634	\$ 534,202,687	\$ 5,997,020
Receipts from interfund services provided	-	-	-	-	-	-	34,428,517
Receipts from operating grants	-	-	68,052	-	-	68,052	-
Payments to suppliers	(404,621,000)	(14,627,910)	(4,069,270)	(1,331,392)	(1,874,148)	(426,523,720)	(30,368,969)
Payments to employees	(21,785,000)	(5,973,058)	(616,767)	(2,012,850)	-	(30,387,675)	(2,708,752)
Payments in lieu of taxes	(6,355,000)	-	-	-	-	(6,355,000)	-
Net cash provided by operating activities	46,900,000	22,138,639	572,169	2,482,050	(1,088,514)	71,004,344	7,347,816
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Transfers in	-	-	-	683,952	-	683,952	4,309,865
Transfers out	(3,312,000)	-	-	-	(1,536,059)	(4,848,059)	-
Net cash provided by (used in) noncapital financing activities	(3,312,000)	-	-	683,952	(1,536,059)	(4,164,107)	4,309,865
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Principal paid on capital debt	(2,275,000)	(11,010,782)	(1,333,536)	(817,860)	(385,270)	(15,822,448)	-
Interest paid on capital debt	(3,176,000)	(4,141,485)	(1,312,945)	(701,649)	(43,591)	(9,375,670)	-
Line of credit	203,000	-	-	-	-	203,000	-
Receipts from bond issue	228,776,000	-	-	-	-	228,776,000	-
Bond issuance cost	(2,017,000)	-	-	-	-	(2,017,000)	-
Capital grants and contributions	1,668,000	-	-	-	-	1,668,000	-
Additions to capital assets	(46,043,000)	(4,898,305)	(2,663,763)	(2,074,782)	(9,420)	(55,689,270)	(3,089,290)
Proceeds from the sale of capital assets	-	146	-	-	2,890,000	2,890,146	-
Net cash flows used in capital and related financing activities	177,136,000	(20,050,426)	(5,310,244)	(3,594,291)	2,451,719	150,632,758	(3,089,290)
CASH FLOWS FROM INVESTING ACTIVITIES							
Purchases of investments	(164,976,000)	(143,350,798)	(31,075,464)	(547,467)	-	(339,949,729)	-
Proceeds from sales and maturities of investments	-	132,492,215	39,752,449	1,087,436	-	173,332,100	-
Interest	2,524,000	1,546,647	713,723	9,856	2,100	4,796,326	-
Net cash flows provided by (used in) investing activities	(162,452,000)	(9,311,936)	9,390,708	549,825	2,100	(161,821,303)	-
Net increase (decrease) in cash and cash equivalents	58,272,000	(7,223,723)	4,652,633	121,536	(170,754)	55,651,692	8,568,391
Cash and cash equivalents, beginning of year	62,930,000	9,645,852	3,700,785	4,939,151	287,892	81,503,680	6,023,647
Cash and cash equivalents, end of year	\$ 121,202,000	\$ 2,422,129	\$ 8,353,418	\$ 5,060,687	\$ 117,138	\$ 137,155,372	\$ 14,592,038
CLASSIFIED AS:							
Current assets	\$ 121,202,000	\$ 2,422,129	\$ 8,353,418	\$ 5,060,687	\$ 82,854	\$ 137,121,088	\$ 14,592,038
Restricted assets	-	-	-	-	34,284	34,284	-

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	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Fund
	Major Funds				Other Fund		
	EPB	Interceptor Sewer System	Solid Waste/ Sanitation	Water Quality Management	Housing Management	Total	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES							
OPERATING INCOME (LOSS)	\$ 20,312,000	\$ 8,981,127	\$ 1,574,353	\$ 1,334,835	\$ (208,155)	\$ 31,994,160	\$ 2,776,504
ADJUSTMENTS NOT AFFECTING CASH							
Depreciation and amortization	20,423,000	9,652,569	608,631	1,006,177	243,752	31,934,129	979,222
Miscellaneous nonoperating expenses, net	(2,095,000)	-	-	-	(922,253)	(3,017,253)	-
Provision for uncollectible accounts	-	344,700	20	59,994	-	404,714	-
Provision for obsolete inventory	-	-	-	-	-	-	9,846
Changes in assets and liabilities:							
(Increase) decrease in accounts receivable	(5,673,000)	(105,855)	(16,421)	(132,477)	24,818	(5,902,935)	(82,183)
(Increase) decrease in due from other funds	-	-	-	-	-	-	391,255
(Increase) decrease in due from other governments	-	-	35,010	-	-	35,010	34,714
(Increase) decrease in inventory	(1,593,000)	(84,294)	-	-	-	(1,677,294)	(33,626)
(Increase) decrease in prepaid items	(968,000)	-	-	-	-	(968,000)	-
(Increase) decrease in deferred charges	(31,000)	120,006	25,358	13,056	-	127,420	-
Increase (decrease) in accounts payable	13,521,000	3,024,544	(1,178,527)	30,294	(279,607)	15,117,704	1,075,797
Increase (decrease) in accrued liabilities	640,000	(73,053)	(361,538)	142,308	-	347,717	(58,699)
Increase (decrease) in accrued claims	-	-	-	-	-	-	2,261,505
Increase (decrease) in other assets/liabilities	1,983,000	192,666	(27,098)	(22,087)	52,931	2,179,412	-
Increase (decrease) in compensated absences	381,000	86,229	(2,292)	59,223	-	524,160	(6,519)
Increase (decrease) in due to other funds	-	-	(85,327)	(9,273)	-	(94,600)	-
TOTAL ADJUSTMENTS	26,588,000	13,157,512	(1,002,184)	1,147,215	(880,359)	39,010,184	4,571,312
Net cash provided by operating activities	\$ 46,900,000	\$ 22,138,639	\$ 572,169	\$ 2,482,050	\$ (1,088,514)	\$ 71,004,344	\$ 7,347,816

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2008

	Other Postemployment Benefits Trust Fund	Pension Trust Funds
<hr/>		
ASSETS		
Investments:		
U.S. Government securities	\$ -	\$ 22,652,344
Corporate bonds	-	23,558,884
Foreign bonds	-	778,966
Corporate stocks	-	200,003,057
Mutual funds - equity	-	124,183,632
Mutual funds - fixed income	-	45,662,525
Temporary investments	2,191,473	20,966,690
Limited partnerships	-	38,708,750
Other investments	-	950,000
Receivables:		
Accrued income	3,523	830,974
Due from plan custodian	<u>2,344,444</u>	<u>-</u>
Total assets	<u>4,539,440</u>	<u>478,295,822</u>
LIABILITIES		
Accounts payable and accrued expenses	<u>-</u>	<u>672,521</u>
Total liabilities	<u>-</u>	<u>672,521</u>
NET ASSETS		
Held in trust for pension and other postemployment benefits	<u>\$ 4,539,440</u>	<u>\$ 477,623,301</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Year Ended June 30, 2008

	Other Postemployment Benefits Trust Fund	Pension Trust Funds
ADDITIONS		
Contributions:		
Employer	\$ 4,481,337	\$ 11,782,162
Employee	<u>-</u>	<u>3,812,430</u>
Total contributions	<u>4,481,337</u>	<u>15,594,592</u>
Investment income:		
Net appreciation in fair market value of investments	-	(30,317,489)
Interest	58,568	3,316,922
Dividends	<u>-</u>	<u>6,961,957</u>
	58,568	(20,038,610)
Less investment expense	<u>(465)</u>	<u>(1,704,879)</u>
Net investment income	<u>58,103</u>	<u>(21,743,489)</u>
Total additions	<u>4,539,440</u>	<u>(6,148,897)</u>
DEDUCTIONS		
Benefits paid to participants	-	30,085,623
Administrative expenses	<u>-</u>	<u>690,546</u>
Total deductions	<u>-</u>	<u>30,776,169</u>
CHANGE IN NET ASSETS	4,539,440	(36,925,066)
Net assets, beginning	<u>-</u>	<u>514,548,367</u>
Net assets, ending	<u>\$ 4,539,440</u>	<u>\$ 477,623,301</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE
 COMPONENT UNITS
 STATEMENT OF NET ASSETS
 June 30, 2008

	Chattanooga Metropolitan Airport Authority	CARTA	Chattanooga Downtown Redevelopment Corporation	Total
ASSETS				
Cash and cash equivalents	\$ 4,996,693	\$ 645,119	\$ 4,024,565	\$ 9,666,377
Investments	-	-	724,048	724,048
Accounts receivable	3,406,108	1,434,934	776,529	5,617,571
Net investment in capital lease	-	-	111,411,938	111,411,938
Deferred charges	159,720	-	2,002,551	2,162,271
Inventories	-	166,826	137,977	304,803
Prepaid items	253,108	263,733	128,735	645,576
Restricted assets:				
Cash and cash equivalents	581,678	255,300	-	836,978
Investments	4,160,543	-	9,809,235	13,969,778
Receivables	104,011	-	-	104,011
Land and other nondepreciable assets	31,652,041	3,258,047	45,559	34,955,647
Other capital assets, net of accumulated depreciation	<u>31,851,539</u>	<u>22,979,493</u>	<u>1,611,691</u>	<u>56,442,723</u>
Total assets	<u>77,165,441</u>	<u>29,003,452</u>	<u>130,672,828</u>	<u>236,841,721</u>
LIABILITIES				
Accounts payable and accrued liabilities	838,021	1,918,656	2,912,464	5,669,141
Deferred revenue	3,780	-	-	3,780
Contracts payable	1,472,142	-	-	1,472,142
Due to primary government	1,745	375,000	-	376,745
Net pension obligations	-	156,490	-	156,490
Revenue bonds payable	12,625,000	-	124,700,000	137,325,000
Original issue premium (discount)	(54,661)	-	1,989,048	1,934,387
Deferred refunding	<u>-</u>	<u>-</u>	<u>(2,602,932)</u>	<u>(2,602,932)</u>
Total liabilities	<u>14,886,027</u>	<u>2,450,146</u>	<u>126,998,580</u>	<u>144,334,753</u>
NET ASSETS				
Invested in capital assets (net of related debt)	50,933,241	26,237,540	1,657,250	78,828,031
Restricted for:				
Debt service	4,846,232	-	9,783,266	14,629,498
Renewal and replacement	-	-	766,225	766,225
Unrestricted	<u>6,499,941</u>	<u>315,766</u>	<u>(8,532,493)</u>	<u>(1,716,786)</u>
Total net assets	<u>\$ 62,279,414</u>	<u>\$ 26,553,306</u>	<u>\$ 3,674,248</u>	<u>\$ 92,506,968</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE

COMPONENT UNITS

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

	Program Revenues				Net Revenue (Expense) and Changes in Net Assets			Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Chattanooga Metropolitan Airport Authority	CARTA	Chattanooga Downtown Redevelopment Corporation	
CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY Airport operations	\$ 9,450,068	\$ 7,560,415	\$ -	\$ 7,722,922	\$ 5,833,269	\$ -	\$ -	\$ 5,833,269
CARTA CARTA operations	19,908,715	5,648,198	6,512,783	6,120,997	-	(1,626,737)	-	(1,626,737)
CHATTANOOGA DOWNTOWN REDEVELOPMENT CORPORATION CDRC operations	<u>17,546,537</u>	<u>17,966,823</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>420,286</u>	<u>420,286</u>
Total component units	<u>\$ 46,905,320</u>	<u>\$ 31,175,436</u>	<u>\$ 6,512,783</u>	<u>\$ 13,843,919</u>	<u>5,833,269</u>	<u>(1,626,737)</u>	<u>420,286</u>	<u>4,626,818</u>
General revenues:								
Investment income					312,533	3,737	493,076	809,346
Miscellaneous					<u>1,322,999</u>	<u>64,011</u>	<u>-</u>	<u>1,387,010</u>
Total general revenues					<u>1,635,532</u>	<u>67,748</u>	<u>493,076</u>	<u>2,196,356</u>
CHANGE IN NET ASSETS					7,468,801	(1,558,989)	913,362	6,823,174
Net assets, beginning					<u>54,810,613</u>	<u>28,112,295</u>	<u>2,760,886</u>	<u>85,683,794</u>
Net assets, ending					<u>\$ 62,279,414</u>	<u>\$ 26,553,306</u>	<u>\$ 3,674,248</u>	<u>\$ 92,506,968</u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF CHATTANOOGA, TENNESSEE
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

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CITY OF CHATTANOOGA, TENNESSEE

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Chattanooga, Tennessee (the City) was incorporated under the Private Acts of 1869. Through June 11, 1990, the City operated under the Commission form of government, consisting of an elected Mayor and four elected Commissioners, each of whom served as the head of a city department. Pursuant to an Agreed Order dated January 18, 1990, issued by the United States District Court for the Eastern District of Tennessee, Southern Division, the Board of Commissioners of the City and the offices of Mayor and Commissioner were abolished as of June 11, 1990.

The Agreed Order provided that the City Charter be amended to create the office of Mayor, with all executive and administrative authority formerly vested in the Board of Commissioners. Further, the City Council was created with all legislative and quasi-judicial authority formerly vested in the Board of Commissioners. Under the provisions of the Agreed Order, the Mayor is elected at-large and is not a member of the City Council, while the City Council is composed of nine members, with each member elected from one of nine districts within the geographic boundaries of the City.

The financial statements of the City have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standards Board ("FASB") issued after November 30, 1989, are not applied in the preparation of the financial statements of enterprise funds in accordance with an election made by the City under GASB Statement No. 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

(A) Reporting Entity

In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the City may be financially accountable and, as such, should be included within the City's financial statements. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit or to impose specific financial burden on the City. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units. The primary government includes separately administered organizations that are not legally separate from the City, as discussed below. Blended component units, although legally separate entities, are in substance part of the government's operations and data from these units are combined with data of the primary government. The City has no blended component units at June 30, 2008. Discretely presented component units are reported in a separate column in the basic financial statements to emphasize that they are legally separate from the City. Each discretely presented component unit has a June 30 year-end.

The financial statements of EPB (the Electric Power Board) are included in the accompanying financial statements as part of the primary government because it is not legally separate from the City. The City affirms all board member appointments and approves all disbursements of EPB funds. EPB's operations are reported as an enterprise fund.

Discretely Presented Component Units

Chattanooga Metropolitan Airport Authority - The City appoints all board members and is secondarily responsible for retirement of the revenue bonds recorded as a liability of the Airport Authority. The Airport Authority is presented as a proprietary fund type.

Chattanooga Area Regional Transit Authority (CARTA) - The City appoints ten members of the twelve-member board. Although CARTA has the authority to issue its own debt, the board members serve at the City's discretion and the City finances the majority of CARTA's operating deficits. CARTA is presented as a proprietary fund type.

Chattanooga Downtown Redevelopment Corporation - The City's Mayor, City Council Chairperson, and Chief Finance Officer are permanent members of the Board, and the City appoints the remaining board members. The Corporation has the authority to issue its own debt, but the City has agreed to finance any operating deficits of the Corporation. The Corporation is presented as a proprietary fund type.

Complete financial statements of the component units can be obtained from:

Chattanooga Metropolitan
Airport Authority
1001 Airport Road, Suite 14
Chattanooga, TN 37421

CARTA
1617 Wilcox Boulevard
Chattanooga, TN 37406

Chattanooga Downtown Redevelopment Corporation
101 City Hall, 101 E. 11th Street
Chattanooga, TN 37402

(B) Joint Ventures and Related Organizations

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain (a) an ongoing financial interest or (b) an on-going financial responsibility. The City participates in the following joint venture:

Carter Street Corporation – The Carter Street Corporation, a nonprofit organization, owns a trade center and parking garage that were financed by bonds issued by the Industrial Development Board of Chattanooga. The Carter Street Corporation is managing the trade center and parking garage under a management agreement. Additional information regarding the City's participation in this joint venture is disclosed in Note 12.

Related Organizations – City officials are also responsible for appointing the members of the boards of other related organizations, but the City's accountability for these organizations does not extend beyond making the appointments. The Mayor or the City Council appoints the Board members of the Chattanooga Housing Authority, The Industrial Development Board of the City of Chattanooga, and The Health, Educational, and Housing Facility Board of the City of Chattanooga. During 2007 the City appropriated no funds to these organizations.

(C) Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Interfund services provided and used are not eliminated in the government-wide statement of activities. In addition, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

(D) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within thirty days of the end of the fiscal period, except for property taxes, for which the time period is sixty days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

General Fund – The General Fund accounts for all financial resources applicable to the general operations of City government that are not properly accounted for in another fund. Revenues are derived primarily from taxes and intergovernmental revenues.

Capital Projects Fund – The Capital Projects Fund accounts for the acquisition or construction of capital projects, other than those financed by Enterprise Funds, the Internal Service Fund, or Trust Funds. Revenues are derived primarily from the sale of general obligation bonds and notes, loans, intergovernmental revenues, and earnings on investments.

The City reports the following major enterprise funds:

EPB Fund – The EPB Fund accounts for the cost of providing electric utility and telecommunication service for the residential and commercial concerns of Chattanooga and Hamilton County, Tennessee. The EPB is a separately administered organization whose Board of Trustees is affirmed by the City. All disbursements of the EPB funds are approved by the City.

Interceptor Sewer System Fund – The Interceptor Sewer System Fund accounts for sanitary sewer services provided to the residents of the City. The fund's revenues are derived primarily from user fees and investment earnings.

Solid Waste/Sanitation Fund – The Solid Waste/Sanitation Fund accounts for the costs associated with the disposal of solid waste and recyclable materials.

Water Quality Management Fund – The Water Quality Management Fund accounts for costs associated with the City’s water quality management program as mandated by the Environmental Protection Agency and the State of Tennessee.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues include charges for services. Operating expenses include costs of services as well as materials, contracts, personnel and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Additionally, the City reports the following fund types:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for the payment of interest, principal, and related costs of long-term liabilities of the governmental activities.

Permanent Fund – Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the government’s programs.

Internal Service Fund - The Internal Service Fund is used to account for fleet services and risk management activities provided to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis. The costs associated with providing these goods or services are usually recovered from those governmental units that receive benefits.

Other Postemployment Benefits Trust Fund - The Other Postemployment Benefits Trust Fund accounts for resources held in trust for a defined benefit postemployment health and medical care plan for City retirees and their dependents. This fund is accounted for in the same manner as business enterprises providing similar services.

Pension Trust Funds - The Pension Trust Funds account for resources held in trust for defined benefit pension plans to provide disability and retirement benefits for City employees/retirees. These funds are accounted for in the same manner as business enterprises providing similar services.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, and 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government’s policy to use restricted resources first, then unrestricted resources as they are needed.

(E) Budget Policy and Budgetary Data

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

The City Finance Officer annually obtains information from all officers, departments, boards, commissions, and other agencies of City Government for which appropriations are made and/or revenues are collected and compile the annual operating budget for the ensuing fiscal year beginning July 1. The compiled information, including various expenditure options and the means of financing them, is submitted to the Mayor.

During May and June, the City Council hears budget requests from agencies and departments at its regularly scheduled meetings. In addition, advertised public hearings are held to allow taxpayers' comments prior to final passage.

Prior to July, the City adopts an interim budget appropriating funds for the usual and ordinary expenses of the City Government in an amount not to exceed one-twelfth of the preceding year's operating budget for each month that the interim budget is in effect. Subsequently, the budget is legally enacted through passage of an ordinance with an operative date of July 1.

Formal budgets are adopted for the General Fund, Special Revenue Funds, and the Debt Service Fund. These formal budgets are adopted on a departmental basis and the line item estimates are from the appropriations ledger and not from a formal budget ordinance. The legal level of budgetary control is the fund level. Transfers of appropriations between funds require the approval of the City Council. The City Finance Officer may make interdepartmental and intradepartmental transfers within the General Fund.

Major capital facilities and improvements, which are accounted for by the City within the Capital Projects Fund, are subject to budgetary control on a project basis. Appropriations for a specific project do not lapse until completion of the project. Because of the project nature of these funds, budgetary comparison statements on an annual basis do not provide meaningful information and, accordingly, are not presented in the accompanying financial statements.

The budgets are prepared on a basis consistent with generally accepted accounting principles except that encumbrances are treated as budget expenditures in the year of the commitment to purchase. Budgetary comparisons presented in the report are on this budgetary basis. All unencumbered and unexpended appropriations lapse at the end of the fiscal year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is utilized for budgetary accounting controls in the governmental funds. Open encumbrances are reported as reservations of fund balances because the commitments will be honored in subsequent years. Encumbrances do not constitute expenditures or liabilities.

Expenditures may not legally exceed appropriations at or above the fund level. All budgeted amounts shown in the financial statements and the accompanying supplementary information reflect the original budget and the amended budget (which may have been adjusted for legally authorized revisions to the annual budgets during the year). During the year ended June 30, 2008, no supplemental appropriations were necessary.

(F) Assets, Liabilities and Fund Equity

1) Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits at various financial institutions, and short-term investments with an original maturity of three months or less.

2) Investments

Investments are stated at fair value, except for interest-earning investment contracts that have a remaining maturity of one year or less at the time of purchase. Any change in the value of investments recorded at fair value is included in investment income. Fair value is based on quoted market prices.

3) Inventories and Prepaid Items

Inventories, principally materials, supplies, and replacement parts, are valued at cost in Governmental Funds and at the lower of cost or market in Proprietary Funds, with cost determined using the first-in, first-out (FIFO) method. The costs are recorded as expenditures at the time individual inventory items are consumed (consumption method).

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4) Restricted Assets

Proceeds of bonds, as well as resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. Also, amounts due from other governments may be included as restricted assets because their use is limited by grant agreements.

5) Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are recorded at their estimated fair market value on the date contributed. Capital assets include public domain infrastructure assets consisting of roads, bridges, streets and sidewalks, sewers, lighting systems, and drainage systems. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 (\$25,000 for infrastructure) and an estimated useful life of three years or greater.

Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Land and certain land improvements are inexhaustible capital assets, and are not depreciated. Depreciation on depreciable capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Buildings	5 – 30 years
Vehicles and machinery	5 – 25 years
Improvements other than buildings	15 years
Sewer system	50 years
Solid waste system	30 years
Water quality management system	50 years
Communications system	5 – 30 years
Electric system	10 – 40 years
Public domain infrastructure	10 – 50 years

Interest is capitalized on assets acquired with tax-exempt debt. The amount of interest capitalized is the net interest expense incurred (interest expense less interest income) from the date of the borrowing until completion of the project.

6) Bond Discounts and Issuance Costs

In the governmental funds, bond discounts and issuance costs are treated as period costs in the year of issue.

In proprietary funds, bond discounts and issuance costs are deferred and amortized over the term of the bonds using the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable whereas issuance costs are recorded as deferred charges.

At the government-wide level any bond discounts and issuance costs in the governmental funds are adjusted and reported in the same manner as in proprietary funds.

7) Deferred Gain/Loss from Advance Refunding of Debt

In the proprietary funds (and for governmental activities in the government-wide financial statements) the difference between the new debt and the net carrying value of the old debt on refunded debt transactions is deferred. The deferred gain/loss is amortized using the effective interest method over the life of the new debt. The deferred gain/loss is offset against the new liability.

8) Fund Balance

Governmental funds report reservations of fund balance in the fund financial statements for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent management plans that are subject to change.

(G) Revenues, Expenditures and Expenses

Substantially all governmental fund revenues are accrued. Expenditures are recognized when the related fund liability is incurred, except for the following instances permitted by generally accepted accounting principles:

- General obligation long-term debt principal and interest are reported only when due.

- Inventory costs are reported in the period when inventory items are consumed, rather than in the period purchased.

1) Property Taxes

Property taxes are levied by the City annually based upon assessed valuations established by the Hamilton County Assessor of Property. The various types of property are assessed at a percentage of market value as follows:

Farm and residential real property	25%
Commercial and industrial property:	
Real	40%
Personal	30%
Public utilities real and personal property	55%

The property tax levy is without legal limit. The rate, as permitted by Tennessee State Law and City Charter, is set annually by the City Council and collected by the City Treasurer. Property taxes are secured by a statutory lien effective as of the original levy date of January 1. Taxes are due October 1 and become delinquent March 1. Property taxes levied for 2007 are recorded as receivables, net of estimated uncollectible amounts.

The receivables collected during the current fiscal year and those collected by the City Treasurer related to tax levies for 2007, are recorded as revenue in accordance with the principles established by the Governmental Accounting Standards Board. The net receivables estimated to be collectible subsequent to August 29, are recorded as deferred revenues at June 30, 2008.

2) Grant Revenue

The City, a recipient of grant revenues, recognizes revenues (net of estimated uncollectible amounts, if any), when all applicable eligibility requirements, including time requirements, are met. Resources transmitted to the City before the eligibility requirements are met are reported as deferred revenues.

Some grants and contributions consist of capital assets or resources that are restricted for capital purposes—to purchase, construct, or renovate capital assets associated with a specific program. These are reported separately from grants and contributions that may be used either for operating expenses or for capital expenditures of the program at the discretion of the City.

3) Investment Income

Investment income from pooled cash and investments is allocated monthly based on the percentage of a fund's average daily equity in pooled cash and investments to the total average daily-pooled equity in pooled cash and investments.

4) Compensated Absences

City employees accrue personal leave, or compensated absences, by prescribed formula based on length of service. The City limits personal leave to twenty (20) days for library employees and one hundred fifty (150) days for all other employees hired on or before March 27, 1990, and one hundred (100) days for all other employees hired thereafter. Compensated absences are reported in governmental funds only if they have matured (i.e., accrued leave outstanding following an employee's resignation or retirement). The liability for compensated absences attributable to the City's governmental activities is recorded in the government-wide financial statements. The non-current portion of the liability for employees of governmental funds is a reconciling item between the fund and government-wide financial statements. Compensated absences related to business-type activities are charged to expense with a corresponding liability established in the government-wide financial statements as well as the applicable business-type funds.

5) Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds to provide services, construct assets and service debt. These transactions are generally reflected as transfers except for transactions reimbursing a fund for expenditures made by it for the benefit of another fund. Such transactions are recorded as expenditures in the disbursing fund and as a reduction of expenditures in the receiving fund. Transactions that would be treated as revenues or expenditures if the involved organizations were external to the City are treated as revenues in the receiving fund and expenditures in the disbursing fund. Transfers within governmental activities and within business-type activities are eliminated upon consolidation.

Amounts owed to one fund or component unit by another are reported as due to/due from other funds or component units. The interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Amounts reported in the fund financial statements as due to/due from other funds are subject to elimination upon consolidation. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

6) Payments Between the City and Component Units

Resource flows (except those that affect the statement of net assets/balance sheet only, such as loans and repayments) between a primary government and its discretely presented component units are reported as external transactions—that is, as revenues and expenses. Payments to component units consist of operating subsidy payments by the City to CARTA. The City also makes lease payments to Chattanooga Downtown Redevelopment Corporation.

7) Indirect Costs

Certain indirect costs have been included as part of the program expenses reported for the various functional activities.

8) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(H) Net Assets

The government-wide and business-type fund financial statements utilize a net asset presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

Invested in Capital Assets (net of related debt)—is intended to reflect the portion of net assets which are associated with non-liquid capital assets less outstanding capital asset related debt.

Restricted Net Assets—represent net assets that have third party (statutory, bond covenant or granting agency) limitations on their use. The City's policy is generally to use restricted net assets first, as appropriate opportunities arise.

Unrestricted Net Assets—represent unrestricted net assets. While management may have categorized and segmented portions for various purposes, the City has the unrestricted authority to alter these managerial decisions.

(I) Library Endowments

The library endowment consists of nine separate endowments established by various individuals and estates. The endowment corpus is restricted and the earnings are used to support the Chattanooga-Hamilton County Bicentennial Library. Realized and unrealized gains are added to the corpus, in accordance with state law. The endowments are tracked by benefactor in order to track compliance with restrictions set forth by the benefactor at the time of the gift or settlement of the benefactor's estate.

The Library Endowment Board Investment Committee has established investment objectives as follows:

- To maximize the return on assets while maintaining an appropriate level of risk for each account.
- To provide long term financial support for each account in accordance with its specific purpose.

The investment committee has a fiduciary responsibility to manage the assets with the assistance of an investment consultant. The committee establishes the general investment guidelines to include the types of acceptable and unacceptable investments, diversification, and asset allocation. The committee is also responsible for monitoring the performance of each investment.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1) Compliance with Finance Related Legal and Contractual Provisions

The City incurred no material violations of finance related legal and contractual provisions.

2) Excess of Expenditures Over Appropriations in Individual Funds

For the year ended June 30, 2008, the City had no material excess of expenditures over appropriations in individual funds.

Net Assets/Fund Balance Deficit

The River Pier Garage Fund has a deficit in fund balance of \$13,614 at June 30, 2008. This deficit resulted from significant costs incurred in prior years. These costs may be covered by future garage revenues, taxpayers, or both.

The Solid Waste/Sanitation Fund has a deficit in net assets of \$11,480,843 at June 30, 2008. This deficit resulted from the recognition of cumulative landfill closure and postclosure care costs from prior years. These costs may be covered by charges to future landfill users, taxpayers, or both. The deficit decreased by \$909,228 from the prior fiscal year.

NOTE 3. CASH AND INVESTMENTS

The City uses a central cash and investment pool for certain Governmental Funds and Proprietary Funds. The cash and investment pool balances are classified as cash and cash equivalents in the accompanying financial statements. The City's investment policy with respect to the cash and investment pool is to maximize investment earnings while maintaining an acceptable level of risk. Because investments in the pool must provide for the future needs of the City, flexibility and liquidity of investments are generally maintained at all times.

At June 30, 2008, investments of the primary government (except for Permanent, Pension Trust and Other Postemployment Benefits Trust Funds) and component units consist of the following:

	Weighted Average Maturity (Years)	Fair Value or Carrying Amount
Primary Government – Governmental Activities:		
U.S. Government agency securities	0.81	\$ 39,296,148
Certificates of deposit classified as investments	0.31	10,000,045
Total	0.70	\$ 49,296,193
Primary Government – Business-Type Activities:		
U.S. Government agency securities	1.94	\$130,979,950
Certificates of deposit classified as investments	0.78	76,263,391
Total	1.52	\$207,243,341
Component Units:		
U.S. Treasury Notes	3.59	\$ 3,985,174
U.S. Government agency securities	0.26	9,984,604
Certificates of deposit classified as investments	0.76	724,048
Total	1.18	\$ 14,693,826

Interest rate risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's policies require purchases of investments with maturities of two years or less. The City presents its exposure to interest rate changes using the weighted average maturity method. The City manages its interest rate risk by limiting the weighted average maturity of its investment portfolio for the primary government to less than one year. The City's investment portfolio did not experience any significant fluctuations in fair value during the year.

Custodial credit risk - The City's policies limit deposits and investments to those instruments allowed by applicable state laws. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of the uninsured deposits. The deposits must be covered by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the City's agent in the City's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the City to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, the state pooled investment fund, and mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction.

Credit risk - The City's policies are designed to maximize investment earnings, while protecting the security of principal and providing adequate liquidity, in accordance with all applicable state laws. The City's investment policy includes specific policies involving credit risk. At June 30, 2008, the primary government's investments in U.S. Government agency securities include Federal Home Loan Bank and Federal National Mortgage Association bonds, which were rated AAA by Standard & Poor's Rating Service (S & P) or Moody's Investor Service (Moody's).

Component unit investments in U.S. Government agency securities of \$9,984,604 were securities of the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association, which were rated AAA by S & P or Moody's.

Permanent, Pension Trust Funds and Other Postemployment Benefit Trust Fund - The Permanent, Pension Trust Funds and Other Postemployment Benefit Trust Fund are managed with long-term objectives that include maximizing total investment earnings. State statutes and City policies allow the Permanent, Pension Trust and Other Postemployment Benefit Trust Funds a broader range of investments than other City investments. The City's Pension Trust funds have no investments in any one issuer that represent 5 percent or more of plan net assets. The credit risk of investments of the Permanent, Pension Trust and Other Postemployment Benefit Trust Funds is summarized as follows:

	<u>S & P or Moody's Rating</u>	<u>Fair Value</u>
<u>Permanent Funds</u>		
Mutual funds - equity	Not rated	\$ 2,262,338
Mutual funds - fixed income	Not rated	764,442
Cash equivalents classified as investments	Not rated	<u>270,765</u>
		<u>\$ 3,297,545</u>

	S & P or Moody's Rating	Fair Value
<u>City of Chattanooga General Pension Plan</u>		
Domestic corporate bonds	B	\$ 1,942,952
Domestic corporate bonds	BA	268,231
Domestic corporate bonds	CAA	1,196,593
Domestic corporate bonds	Withdrawn	32,190
Domestic corporate bonds	Not rated	306,511
Mutual funds - equity	Not rated	48,453,932
Mutual funds - fixed income	Not rated	45,662,525
Domestic equity securities	Not rated	83,683,313
Limited partnerships	Not rated	38,708,750
Temporary investments	Not rated	10,121,951
		<u>\$230,376,948</u>
<u>Firemen's and Policemen's Insurance and Pension Fund</u>		
U.S. Government securities	AAA	\$ 12,231,774
Domestic corporate bonds	AAA	4,086,592
Domestic corporate bonds	AA	4,390,490
Domestic corporate bonds	A	5,941,956
Foreign bonds	A	160,867
U.S. Government securities	A	44,110
Domestic corporate bonds	BAA	3,656,083
Foreign bonds	BAA	394,785
Mutual funds - equity	BAA	59,117
U.S. Government securities	Not rated	10,376,460
Domestic corporate bonds	Not rated	1,882,113
Foreign bonds	Not rated	78,487
Mutual funds - equity	Not rated	75,670,583
Domestic equity securities	Not rated	116,319,744
Temporary investments	Not rated	10,844,739
Investment in real estate corporation	Not rated	950,000
		<u>\$247,087,900</u>
<u>Other Postemployment Benefit Trust Fund</u>		
Temporary investments	Not rated	<u>\$ 2,191,473</u>

At June 30, 2008, the fair values of the City of Chattanooga General Pension Plan investments totaling \$127,055,707 are based on valuations for which a readily determinable fair value does not exist. These investments are not listed on national exchanges or over-the-counter markets, and quoted market prices are not available. These investments include limited partnerships, private equity funds, and other types of non-traditional investments. Management estimates the fair values of these investments based on a review of all available information provided by fund managers and general partners. These fair value estimates are evaluated on a regular basis by management and are susceptible to revisions as more information becomes available. Because of these factors, it is reasonably possible that the estimated fair values of these investments may change materially in the near term.

Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios, particularly portfolios with equity investments. As a result, the investments in the Permanent and Pension Trust Funds have likely continued to decline in fair value since June 30, 2008.

NOTE 4. RECEIVABLES

Receivables at June 30, 2008, consist of the following:

	Governmental Activities Funds			Business-Type Activities	Total
	General	Capital Projects	Other Governmental		
Primary Government					
Receivables:					
Taxes	\$ 94,777,239	\$ -	\$ -	\$ -	\$ 94,777,239
Accounts	-	71,746	91,335	149,658	312,739
Notes	1,249,261	3,038,669	-	-	4,287,930
Customer service	-	-	-	57,591,595	57,591,595
Other	4,608,007	33,161	-	399,706	5,040,874
Intergovernmental	<u>19,196,344</u>	<u>293,236</u>	<u>3,854,545</u>	<u>49,991</u>	<u>23,394,116</u>
Gross receivables	119,830,851	3,436,812	3,945,880	58,190,950	185,404,493
Less:					
Allowance for uncollectibles	<u>(3,534,970)</u>	<u>-</u>	<u>-</u>	<u>(1,150,455)</u>	<u>(4,685,425)</u>
Net receivables	<u>\$116,295,881</u>	<u>\$3,436,812</u>	<u>\$3,945,880</u>	<u>\$57,040,495</u>	<u>\$180,719,068</u>

Taxes receivable include the uncollected property taxes from tax levies made during the current and past nine years, as well as the anticipated levy for the current calendar year. The allowance for uncollectible taxes is the weighted average percentage of prior year collections on delinquent taxes to the total delinquent taxes receivable at June 30, 2008.

NOTE 5. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables are due to charges between funds that are outstanding as of June 30, 2008, as follows:

Receivable Fund	Payable Fund	Amount
Nonmajor Governmental Funds (Debt Service)	General Fund	\$2,618,879
Nonmajor Governmental Funds (Debt Service)	Capital Projects	<u>558,931</u>
		<u>\$3,177,810</u>

NOTE 6. INTERFUND TRANSFERS

	Transfers In:					Total
	General Fund	Capital Projects	Nonmajor Governmental	Water Quality Management	Internal Service	
Transfers out:						
General Fund	\$ -	\$14,903,840	\$13,217,311	\$683,952	\$1,574,989	\$30,380,092
Capital Projects Fund	125,000	-	818,066	-	2,734,876	3,677,942
Nonmajor Governmental Funds	-	925,363	6,157,882	-	-	7,083,245
Electric Power Board	3,312,000	-	-	-	-	3,312,000
Housing Management	<u>1,536,059</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,536,059</u>
Total	<u>\$4,973,059</u>	<u>\$15,829,203</u>	<u>\$20,193,259</u>	<u>\$683,952</u>	<u>\$4,309,865</u>	<u>\$45,989,338</u>

Transfers are used to 1) move revenues from the General Fund, the Capital Projects Fund, the Narcotics Program Fund, the Community Development Fund, and the Hotel/Motel Tax Fund to the Debt Service Fund as debt service principal and interest payments become due, 2) move restricted amounts from borrowings to the Capital Projects Fund and the Debt Service Fund as required, 3) move unrestricted revenues from the General Fund to other funds for various programs that the City must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs, and 4) record payments in lieu of taxes from the Electric Power Board to the General Fund.

NOTE 7. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, is as follows:

Primary Government

Governmental Activities:

	Beginning Balance	Additions	Deductions	Ending Balance
Non-Depreciable Assets:				
Land and land improvements	\$ 999,521,444	\$ 25,821,494	\$ 1,700,512	\$1,023,642,426
Construction in Progress	9,868,400	5,412,323	144,665	15,136,058
Total non-depreciable assets	<u>1,009,389,844</u>	<u>31,233,817</u>	<u>1,845,177</u>	<u>1,038,778,484</u>
Depreciable Assets:				
Buildings and improvements	188,762,950	385,189	138,098	189,010,041
Vehicles and machinery	104,536,830	9,159,758	2,653,788	111,042,800
Infrastructure	<u>642,943,307</u>	<u>11,829,754</u>	<u>-</u>	<u>654,773,061</u>
Total depreciable assets	<u>936,243,087</u>	<u>21,374,701</u>	<u>2,791,886</u>	<u>954,825,902</u>
Less Accumulated Depreciation for:				
Buildings and improvements	62,732,401	5,541,743	138,098	68,136,046
Vehicles and machinery	75,856,673	8,893,053	2,361,153	82,388,573
Infrastructure	<u>271,332,854</u>	<u>25,384,292</u>	<u>-</u>	<u>296,717,146</u>
Total accumulated depreciation	<u>409,921,928</u>	<u>39,819,088</u>	<u>2,499,251</u>	<u>447,241,765</u>
Depreciable Assets, net	<u>526,321,159</u>	<u>(18,444,387)</u>	<u>292,635</u>	<u>507,584,137</u>
Governmental activities capital assets, net	<u>\$1,535,711,003</u>	<u>\$ 12,789,430</u>	<u>\$ 2,137,812</u>	<u>\$1,546,362,621</u>

Business-Type Activities:

Non-Depreciable Assets:				
Land	\$ 14,721,688	\$ 652,659	\$ 42,489	\$ 15,331,858
Construction in Progress	<u>19,725,534</u>	<u>19,562,000</u>	<u>8,191,534</u>	<u>31,096,000</u>
Total non-depreciable assets	<u>34,447,222</u>	<u>20,214,659</u>	<u>8,234,023</u>	<u>46,427,858</u>
Depreciable Assets:				
Buildings and improvements	99,416,299	284,616	1,889,205	97,811,710
Vehicles and machinery	68,750,482	4,809,295	6,282,100	67,277,677
Sewer system	407,328,615	4,098,289	146	411,426,758
Solid waste system	-	9,250,985	-	9,250,985
Water quality management system	45,332,636	1,194,006	-	46,526,642
Electric system	387,877,000	19,939,000	8,374,000	399,442,000
Communications system	<u>28,880,000</u>	<u>3,129,000</u>	<u>190,000</u>	<u>31,819,000</u>
Total depreciable assets	<u>1,037,585,032</u>	<u>42,705,191</u>	<u>16,735,451</u>	<u>1,063,554,772</u>

	Beginning Balance	Additions	Deductions	Ending Balance
Less Accumulated Depreciation for:				
Buildings and improvements	\$ 25,209,073	\$ 2,901,040	\$ 520,197	\$ 27,589,916
Vehicles and machinery	30,639,525	4,329,897	6,028,099	28,941,323
Sewer system	151,068,418	8,099,307	-	159,167,725
Solid waste system	-	154,183	-	154,183
Water quality management system	7,215,534	930,702	-	8,146,236
Electric system	169,245,000	12,833,000	7,167,000	174,911,000
Communications system	9,952,000	2,686,000	40,000	12,598,000
Total accumulated depreciation	393,329,550	31,934,129	13,755,296	411,508,383
Depreciable Assets, net	644,255,482	10,771,062	2,980,155	652,046,389
Business-type activities capital assets, net	\$ 678,702,704	\$ 30,985,721	\$ 11,214,178	\$ 698,474,247

Discretely Presented Component Units

	Beginning Balance	Additions	Deductions	Ending Balance
Non-Depreciable Assets:				
Land	\$ 4,541,071	\$ -	\$ -	\$ 4,541,071
Construction in Progress	22,620,301	7,794,275	-	30,414,576
Total non-depreciable assets	27,161,372	7,794,275	-	34,955,647
Depreciable Assets:				
Buildings	82,624,971	618,189	-	83,243,160
Vehicles and machinery	46,900,301	4,555,489	-	51,455,790
Total depreciable assets	129,525,272	5,173,678	-	134,698,950
Less Accumulated Depreciation for:				
Buildings	38,059,990	3,951,429	-	42,011,419
Vehicles and machinery	32,092,769	4,152,039	-	36,244,808
Total accumulated depreciation	70,152,759	8,103,468	-	78,256,227
Depreciable Assets, net	59,372,513	(2,929,790)	-	56,442,723
Component units capital assets, net	\$ 86,533,885	\$ 4,864,485	\$ -	\$ 91,398,370

The City is in the process of preparing to change capital assets records systems. As a result, reclassifications have been made to the beginning balances among asset classes.

Depreciation expense is charged to functions as follows:

Primary Government – Governmental Activities:	
General government	\$17,386,532
Public Safety	468,873
Public Works	21,272,661
Parks and Recreation	638,989
Social Services	52,033
Total	<u>\$39,819,088</u>

Primary Government – Business-Type Activities:

Sewer	\$ 9,652,569
Solid Waste/Sanitation	608,631
Water Quality Management	1,006,177
Housing Management	243,752
Electric Utility	<u>20,423,000</u>

Total	<u>\$31,934,129</u>
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Discretely Presented Component Units:

Transportation Authority	\$ 4,651,399
Airport Authority	3,191,672
Downtown Redevelopment	<u>260,397</u>

Total	<u>\$ 8,103,468</u>
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NOTE 8. LONG-TERM LIABILITIES

Changes in long-term liabilities for the fiscal year ended June 30, 2008, were as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due Within One Year
Primary Government					
GOVERNMENTAL ACTIVITIES					
General obligation serial bonds	\$136,098,716	\$ -	\$ 5,255,237	\$130,843,479	\$ 6,605,781
Notes payable	27,592,266	10,001,622	5,000,465	32,593,423	2,425,043
Capital leases payable	115,513,895	-	2,910,119	112,603,776	3,066,000
Compensated absences	<u>16,474,950</u>	<u>8,826,443</u>	<u>8,272,793</u>	<u>17,028,600</u>	<u>5,567,234</u>
Total governmental activities	<u>\$295,679,827</u>	<u>\$18,828,065</u>	<u>\$21,438,614</u>	293,069,278	<u>\$17,664,058</u>
Net deferred refunding and original issue premiums and discounts				<u>1,027,304</u>	
				<u>\$294,096,582</u>	
BUSINESS-TYPE ACTIVITIES					
EPB:					
Revenue bonds	\$ 71,430,000	\$219,830,000	\$ 1,600,000	\$289,660,000	\$ 1,600,000
Notes payable	1,970,000	-	675,000	1,295,000	709,000
Compensated absences	<u>762,000</u>	<u>-</u>	<u>21,000</u>	<u>741,000</u>	<u>-</u>
	<u>74,162,000</u>	<u>219,830,000</u>	<u>2,296,000</u>	<u>291,696,000</u>	<u>2,309,000</u>
Interceptor Sewer System:					
General obligation serial bonds	65,515,699	-	8,897,074	56,618,625	8,798,566
Notes payable	43,455,652	-	2,091,463	41,364,189	2,159,593
Capital leases payable	193,543	-	22,245	171,298	23,575
Compensated absences	<u>820,543</u>	<u>107,927</u>	<u>21,698</u>	<u>906,772</u>	<u>331,166</u>
	<u>109,985,437</u>	<u>107,927</u>	<u>11,032,480</u>	<u>99,060,884</u>	<u>11,312,900</u>
Solid Waste/Sanitation Fund:					
General obligation serial bonds	27,709,011	-	1,274,778	26,434,233	2,471,820
Notes payable	970,000	-	58,758	911,242	60,546
Compensated absences	<u>75,446</u>	<u>34,786</u>	<u>37,076</u>	<u>73,156</u>	<u>24,606</u>
	<u>28,754,457</u>	<u>34,786</u>	<u>1,370,612</u>	<u>27,418,631</u>	<u>2,556,972</u>

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2008</u>	<u>Due Within One Year</u>
Water Quality Management Fund:					
General obligation serial bonds	\$ 13,656,575	\$ -	\$ 657,911	\$ 12,998,664	\$ 1,478,835
Notes payable	996,465	-	159,949	836,516	166,433
Compensated absences	<u>174,429</u>	<u>242,182</u>	<u>182,961</u>	<u>233,650</u>	<u>102,610</u>
	<u>14,827,469</u>	<u>242,182</u>	<u>1,000,821</u>	<u>14,068,830</u>	<u>1,747,878</u>
Total business-type activities	<u>\$227,729,363</u>	<u>\$220,214,895</u>	<u>\$15,699,913</u>	432,244,345	<u>\$17,926,750</u>
Net deferred refunding and original issue premiums and discounts				<u>8,799,222</u>	
				<u>\$441,043,567</u>	
Discretely Presented Component Units					
Metropolitan Airport Authority:					
Revenue bonds	\$ 13,305,000	\$ -	\$ 680,000	\$ 12,625,000	\$ 115,000
Chattanooga Downtown Redevelopment Corporation:					
Revenue bonds	<u>127,400,000</u>	<u>-</u>	<u>2,700,000</u>	<u>124,700,000</u>	<u>2,910,000</u>
Total component units	<u>\$140,705,000</u>	<u>\$ -</u>	<u>\$ 3,380,000</u>	137,325,000	<u>\$3,025,000</u>
Net deferred refunding and original issue premiums and discounts				<u>(668,545)</u>	
				<u>\$136,656,455</u>	

Total reductions in Long-Term Liabilities for Governmental Activities above are different than principal retirement expenditures in Governmental Funds. The difference is due to the principal portion of capital lease payments of \$2,326,799 to Chattanooga Downtown Redevelopment Corporation (CDRC), which is budgeted in general government expenditures.

In prior years, the City refunded certain general obligation, sewage facility and other bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liabilities for the refunded bonds are not included in the City's financial statements. At June 30, 2008, the remaining liabilities for the bonds refunded were as follows:

<u>Year Refunded</u>	<u>Primary Government</u>	<u>Component Units</u>
1986	\$ 2,825,000	\$ -
1992	13,510,000	-
1996	6,000,000	-
1998	20,490,000	-
2002	31,570,000	-
2003	19,635,000	-
2005	48,675,000	-
2007	17,715,000	55,340,000

Debt related to governmental activities at June 30, 2008, consisted of the following:

General Obligation Bonds - The City periodically issues general obligation bonds for the acquisition and construction of major capital facilities. These bonds are direct obligations and are backed by the full faith and credit of the City. Certain bonds are subject to federal arbitrage regulations. These bonds are generally issued as 15 to 30-year serial bonds. General obligation bonds are summarized by issue as follows:

<u>Issue</u>	<u>Interest Rates</u>	<u>Principal Amount</u>
Public Improvement Refunding, Series 1998	5.25 % - 5.50 %	\$ 6,780,400
Municipal Public Improvement, Series 2001	5.00 %	1,155,000
Public Improvement Refunding, Series 2002	4.00 % - 5.38 %	6,240,000
Refunding Bonds, 2002 Series A	3.25 % - 5.00 %	2,664,961
Hotel-Motel Tax Pledge, Series 2002	3.00 % - 5.00 %	48,190,000
General Obligation, 2003 Series A	3.00 % - 4.20 %	8,950,000
General Obligation, 2005 Series A	3.00 % - 5.00 %	17,197,982
Hotel-Motel Tax Refunding, Series 2005A	3.00 % - 5.00 %	5,448,980
Municipal Public Improvement, Series 2006A	4.00 % - 5.00 %	19,696,156
Public Improvement Refunding, Series 2007A	4.30 % - 5.00 %	<u>14,520,000</u>
Total payable from the Debt Service Fund		<u>\$130,843,479</u>

Tennessee Municipal Bond Fund Loan (1997) - Pursuant to a loan agreement with the Tennessee Municipal Bond Fund, the City of Chattanooga is authorized to incur indebtedness up to \$7,908,000 for the purpose of financing certain general government capital projects. The maximum amount authorized by the agreement is being reserved by the Trustee and is disbursed to the City upon request. The loan will be repaid over a 15-year period at variable interest rates through 2012. Interest rate changes are based on the short-term tax exempt rate that is remarketed and published weekly. The balance at June 30, 2008, is \$2,761,023.

Tennessee Municipal Bond Fund Loan (2003) - Pursuant to a loan agreement with the Tennessee Municipal Bond Fund, the City of Chattanooga is authorized to incur indebtedness up to \$6,000,000 for the purpose of paying for certain general government capital projects. The maximum amount authorized by the agreement is being reserved by the Trustee and is disbursed to the City upon request. The loan will be repaid over a 15-year period at variable rates through 2018. Interest rate changes are based on the short-term tax exempt rate that is remarketed and published weekly. The balance at June 30, 2008, is \$3,912,240.

Tennessee Municipal Bond Fund Loan (2004) - Pursuant to a loan agreement with the Tennessee Municipal Bond Fund, the City of Chattanooga is authorized to incur indebtedness up to \$25,000,000 for the purpose of paying for certain general government capital projects. The maximum amount authorized by the agreement is being reserved by the Trustee and is disbursed to the City upon request. The loan will be repaid over a 20-year period at variable rates through 2024. Interest rate changes are based on the short-term tax exempt rate that is remarketed and published weekly. The balance at June 30, 2008, is \$20,019,576.

Fire Hall Land Note - During 1999 the City acquired land for the construction of a fire hall. In connection with acquiring the property, the City executed a note payable to the former owners. The note bears interest at 9.5% and will be repaid over a 15-year period. The balance at June 30, 2008, is \$25,180.

Hennen Land Note – In December 2007, the City purchased the Narrow Bridge Property from Jenkins Road, LLC (Tim Hennen). Hennen will be paid for the land from the parking revenue generated by Hennen Restaurant employees and customers. The note carries fixed parking prices for five years beginning January 2008. The balance at June 30, 2008, is \$549,404.

Petros Note Payable – In 2007, the City purchased property from John and Voula Petros to build a city park on Jenkins Road. The City executed a note payable to the former owners. The City incurred expenses of \$4,054 which were paid at closing. The note will be paid in equal installments over four years beginning in March 2008. The balance at June 30, 2008, is \$750,000.

HUD Section 108 Loan – On June 12, 2008, the City received a loan from the U.S. Department of Housing and Urban Development. A significant portion of the money was authorized to be used for repayment of the 2003 Fannie Mae Loan, with the remaining balance to be used for the Brownfields/Community Development Loan Fund and public infrastructure projects. The note will be amortized over 15 years, with a variable interest rate. The balance at June 30, 2008, is \$4,576,000.

Chattanooga Downtown Redevelopment Corporation Capital Lease - In October 2000, the City entered into a noncancelable long-term lease with the Chattanooga Downtown Redevelopment Corporation (CDRC), for financing the cost of designing, acquiring, constructing and equipping four facilities in the Tourist Development Zone comprising more than 631,210 square feet at a cost of over \$120 million. Facilities include (1) the Chattanooga-a residential conference center, (2) parking garage, (3) the Development Resource Center, and (4) an expansion of the Chattanooga-Hamilton County Convention and Trade Center. The lease provides for semiannual payments in amounts sufficient to meet the annual debt service requirements on \$129 million in revenue bonds issued by the Industrial Development Board of the City of Chattanooga on behalf of the CDRC, a non-profit corporation. The IDB bonds are secured by payments to be made by the CDRC. The lease payments will be funded by the City's share of the 1/2% increase in the county-wide sales tax passed by county-wide referendum, income from the Chattanooga, state incremental sales tax generated in the Tourist Development Zone and interest income from a debt service reserve fund in excess of \$9 million included as part of the bond issue. In the event these sources are insufficient, the City agreed to appropriate sufficient moneys to make the lease payments. The City's lease payment for the year ended June 30, 2008, was \$6,772,702, of which \$2,326,799 was a reduction of principal. The recorded liability under this capital lease at June 30, 2008, is \$111,411,938.

The debt service reserve fund held by the fiscal agent at June 30, 2008, is \$9,809,235. The fiscal agent is required by the agreement to apply any interest on the debt service reserve fund toward the lease payments. The debt service reserve fund will be used to retire debt near the end of the lease.

Equipment Capital Lease - In September 2003, the City entered into an equipment lease-purchase agreement to finance radio communications equipment and software upgrades at the Hamilton County "911" Emergency Communications District totaling \$3,800,000. The lease term is six years and provides for annual payments which began July 1, 2004. The recorded liability under this capital lease at June 30, 2008, is \$1,191,838.

Debt service requirements for general obligation bonds, notes payable, and capital leases are met by the General Fund. The compensated absences liability attributable to governmental activities will be liquidated by the General Fund and the Special Revenue Funds.

Debt related to business-type activities at June 30, 2008, consisted of the following:

<u>Issue</u>	<u>Interest Rates</u>	<u>Principal Amount</u>
EPB:		
Electric System Revenue Bonds, Series 2000	4.50% - 5.00%	\$ 6,400,000
Electric System Revenue Bonds, Series 2006A	4.00% - 5.00%	40,000,000
Electric System Refunding Revenue Bonds, Series 2006B	4.00% - 4.25%	23,430,000
Electric System Revenue Bonds, Series 2008A	3.00% - 5.00%	219,830,000
Equipment Notes	4.40% - 4.95%	1,295,000
Interceptor Sewer System Fund:		
Municipal Public Improvement Refunding, Series 1998	5.25% - 5.50%	11,609,900
Municipal Public Improvement Refunding, Series 2002	4.00% - 4.50%	17,588,770
Refunding Bonds, 2002 Series A	3.25% - 5.00%	14,235,039
Refunding Bonds, 2003 Series B	3.25%	2,170,000
Refunding Bonds, 2005 Series A	3.50% - 5.00%	11,014,916
1992 State Revolving Sewer Loan*	3.98%	836,516
Northwest Georgia Sewer Expansion Project	4.00%	4,715,691
State Revolving Loan 2003	2.98%	35,811,982
City of Collegedale Capital Lease	Variable	171,298
Solid Waste/Sanitation Fund:		
Municipal Public Improvement Refunding, Series 1998	5.50%	3,686,100
Municipal Public Improvement, Series 2001	5.00%	195,000
Municipal Public Improvement Refunding, Series 2002	4.38% - 5.38%	5,695,200
Refunding Bonds, 2005 Series A	3.00% - 5.00%	8,994,089
Municipal Public Improvement, Series 2006A	4.00% - 5.00%	5,383,844
Public Improvement Refunding, Series 2007A	4.30% - 5.00%	2,480,000
2003 Tennessee Municipal Bond Fund Loan	1.54%	396,760
2004 Tennessee Municipal Bond Fund Loan	1.54%	514,482
Water Quality Management Fund:		
Municipal Public Improvement Refunding, Series 1998	5.50%	2,528,600
Municipal Public Improvement, Series 2001	5.00%	60,000
Municipal Public Improvement Refunding, Series 2002	4.38% - 5.38%	4,256,031
Refunding Bonds, 2005 Series A	3.00% - 5.00%	5,404,033
Public Improvement Refunding, Series 2007A	4.30% - 5.00%	750,000
1992 State Revolving Sewer Loan*	3.98%	836,516
Total payable from business-type activities		<u>\$430,289,767</u>

*1992 State Revolving Loan Fund - The City entered into an agreement with the Tennessee Department of Health and Environment to secure a loan for the purpose of constructing a Combined Sewer Overflow Facility located at Ross's Landing. The loan will be repaid in monthly installments through 2013 with interest at 1.54%. The remaining balance at June 30, 2008, is \$1,673,032.

Georgia State Revolving Loan - Pursuant to a loan agreement with the Georgia State Revolving Loan Fund, the City of Chattanooga is authorized to incur indebtedness up to \$7,255,000 for the purpose of financing sewer expansion in Northwest Georgia. The maximum amount authorized by the agreement is being reserved by the Georgia Environmental Facilities Authority and is disbursed to the City upon request. The loan will be repaid over a 20-year period at 4% interest through 2020. The balance at June 30, 2008, is \$4,715,691.

State Revolving Loan 2003 – The City entered into an agreement with the Tennessee Department of Environment and Conservation and the Tennessee Local Development Authority to secure a loan for the purpose of financing sewer projects. The loan will be repaid in monthly installments through 2025 at 2.98% interest. The balance at June 30, 2008, is \$35,811,982.

Capital Leases – The City has an agreement with the City of Collegedale to lease and purchase sewer system improvements. Lease payments are due in monthly installments through 2015 at variable rates of interest. The balance on this capital lease at June 30, 2008, is \$171,298.

EPB Equipment Notes – EPB has five installment notes outstanding at June 30, 2008, totaling \$1,295,000. The proceeds of these notes were used for electrical equipment. The notes will be repaid over a 5-year period at interest rates in the range of 4.40% to 4.95%.

Component Units debt at June 30, 2008, consisted of the following:

<u>Issue</u>	<u>Interest Rates</u>	<u>Principal Amount</u>
Metropolitan Airport Authority:		
Series A Refunding Revenue Bonds, Series 2002	2.76%	\$ 12,625,000
Chattanooga Downtown Redevelopment Corporation:		
Chattanooga Lease Rental Revenue Bonds, Series 2000	5.00% - 5.88%	68,590,000
Chattanooga Lease Rental Refunding Revenue Bonds, Series 2007	4.00% - 5.00%	<u>56,110,000</u>
Total payable from Component Units		<u>\$137,325,000</u>

Principal and interest requirements to maturity for bonds and notes payable, excluding amounts for compensated absences, are as follows:

<u>Year</u>	<u>Primary Government</u>			
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 9,030,824	\$ 6,624,298	\$ 17,444,793	\$ 17,670,936
2010	9,607,171	6,321,383	16,542,900	18,648,225
2011	9,748,625	5,963,635	15,296,557	17,940,702
2012	8,453,624	5,623,573	13,480,427	17,287,541
2013	7,956,137	5,298,423	13,934,200	16,672,038
2014-2018	40,838,300	21,724,895	87,633,686	72,862,440
2019-2023	36,208,504	13,943,489	77,177,815	54,246,315
2024-2028	28,903,717	6,208,155	78,323,091	36,619,125
2029-2033	12,690,000	980,000	89,615,000	16,690,000
2034	-	-	20,670,000	517,000
	<u>\$163,436,902</u>	<u>\$72,687,851</u>	<u>\$430,118,469</u>	<u>\$269,154,322</u>
<u>Year</u>	<u>Component Units</u>			
	<u>Principal</u>		<u>Interest</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 3,025,000	\$ 7,123,836		
2010	3,900,000	6,930,536		
2011	4,030,000	6,723,399		
2012	4,260,000	6,505,141		
2013	4,465,000	6,283,161		
2014-2018	26,045,000	27,518,767		
2019-2023	30,850,000	19,467,366		
2024-2028	35,035,000	10,769,912		
2029-2033	25,715,000	1,970,625		
2034	-	-		
	<u>\$137,325,000</u>	<u>\$ 93,292,743</u>		

Principal and interest requirements to maturity for capital leases are as follows:

Year	Primary Government			
	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2009	\$ 3,066,000	\$ 7,242,359	\$ 23,575	\$10,078
2010	3,229,695	7,073,415	25,018	8,635
2011	2,789,754	6,894,284	26,585	7,068
2012	2,986,987	6,713,363	28,286	5,366
2013	3,164,158	6,519,651	30,133	3,520
2014-2018	19,054,910	29,251,444	37,701	1,561
2019-2023	25,858,372	22,243,953	-	-
2024-2028	35,096,829	12,735,730	-	-
2029-2033	17,357,071	1,705,836	-	-
	<u>\$112,603,776</u>	<u>\$100,380,035</u>	<u>\$171,298</u>	<u>\$36,228</u>

NOTE 9. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Assets in the plan are recorded at market value but are administered by private corporations under contract with the City. It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The following is a summary of activity in the Plan for the year:

Asset balance at July 1, 2007	\$17,641,643
Deferrals of compensation	1,490,517
Earnings (losses)	(5,553)
Withdrawals	(1,259,670)
Administrative expenses	<u>(15)</u>
Asset balance at June 30, 2008	<u>\$17,866,922</u>

NOTE 10. EMPLOYEE RETIREMENT SYSTEMS

The primary government provides retirement benefits through three single employer defined benefit pension plans (General Pension Plan, Firemen's and Policemen's Insurance and Pension Fund, and EPB Pension Plan) and an other postemployment benefit plan. All employees are eligible to participate in one of these retirement benefit pension plans. The City acts as Trustee for the General Pension Plan and the Firemen's and Policemen's Insurance and Pension Plan, which are included in the accompanying financial statements as pension trust funds. The City also acts as Trustee for the Other Postemployment Benefits Trust, which is included in the accompanying financial statements as an other postemployment benefits trust fund. The City does not administer the assets of the EPB Pension Plan, therefore they are not included in the accompanying financial statements. The following is a summary of each of these plans:

City of Chattanooga Administered Pension and Other Postemployment Benefit Plans

Significant Accounting Policies:

Basis of Accounting

The financial statements of the General Pension Plan, the Firemen's and Policemen's Insurance and Pension Fund and Other Postemployment Benefits Trust Fund are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Cash and Cash Equivalents

The cash and cash equivalents of each plan represent balances at the financial institutions that serve as custodians of plan assets, and are not part of the City's centralized cash and investment pool. Occasionally, negative cash balances result from benefit payments and administrative expenses. Negative cash balances are replenished by transfers from investments.

Method Used to Value Investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

Plan Descriptions:

(1) City of Chattanooga General Pension Plan

The City maintains a single-employer defined benefit pension plan for general City employees. Each participant is required to contribute 2 percent of earnings. The City is currently contributing 6.36 percent of the total covered payroll of the participants, which is the minimum requirement as noted by the most recent actuarial report.

The normal retirement benefit is 2 percent of average earnings multiplied by years of credited service up to twenty (20) years plus one percent of average earnings multiplied by years of credited service in excess of twenty (20) years.

The benefits payable to retirees are increased annually by a 3 percent cost-of-living increase. Future amendments to the plan provisions can be authorized by City ordinance upon recommendation from the Board of Trustees of the General Pension Plan, a statement of impact from the actuary, and a favorable opinion of the Office of Mayor.

The normal retirement date is the first day of the month following the participant's attainment of age 62. Benefits are reduced on a pro rata basis for early retirement. An employee otherwise vested shall be penalized 2.5 percent for each year of age less than 62. However, if the sum of the participant's age and years of credited service is at least eighty (80), there shall be no reduction in the immediate early retirement benefit. A deferred retirement option plan provides alternative benefits for up to 3 years of credited service to eligible members with at least 26 years of credited service.

(2) Firemen's and Policemen's Insurance and Pension Fund

The City maintains a single-employer defined benefit pension plan for the firemen and policemen employed by the City. The Plan is designed for each plan participant to contribute 8 percent of base salary. The City is currently contributing 23.56 percent of the total covered payroll of the participants, which is the minimum requirement as noted by the most recent actuarial report. Members of the Plan are not covered under OASDI through their City of Chattanooga employment. Increased court costs on all forfeitures of fines or monies or on convictions of violating any City ordinances are recorded as additional contributions to the Plan. The cost of administering the Plan is borne by the City.

The normal retirement benefit is 68.75 percent of average base salary, where average base salary is based on the three-year period of service yielding the highest arithmetic average of the participant's salary history. For service beyond 25 years, the benefit is increased 1.25 percent per year up to 30 years of service.

The benefits payable to retirees are increased annually by a 3 percent cost-of-living increase. These benefit provisions may be amended by City ordinance upon recommendation from the Board of Trustees of the Firemen's and Policemen's Insurance and Pension Fund and a favorable opinion of the Office of the Mayor.

The normal retirement date is the first day of the month following the participant's completion of 25 years of credited service. Reduced benefit provisions are available for those participants who have attained age 55 and have completed at least 10 years of credited service. In the event of death, job-related or non-job-related disability, participants who are not yet eligible for normal retirement benefits can receive a percentage of their salary, based on a formula using the three-year period of service yielding the highest arithmetic average of the participant's salary history. A deferred retirement option plan provides alternative benefits for up to 3 years of credit service to eligible members who have 25 years of credited service.

(3) Other Postemployment Benefits

During the fiscal year ending June 30, 2008, the City implemented GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions (OPEB)." These requirements were implemented prospectively.

The City maintains a single-employer defined benefit postemployment health and medical care plan for retirees and their dependents in accordance with City ordinance. Substantially all of the City's employees may become eligible for benefits if they reach normal retirement age or certain service requirements while working for the City. Retired plan members and beneficiaries are required to contribute specified amounts monthly toward the cost of health insurance premiums. Employees who retired prior to 2002 contribute an amount equal to the amount paid by active employees. Employees who retire after 2002 with 25 years of service or a job-related disability contribute an amount equal to 1.5 times that paid by active employees. Employees who retire after 2002 with less than 25 years of service or a non-job-related disability contribute an amount increased on a pro rata year's basis. The City pays the remainder of the costs of medical coverage. The City is currently contributing 14.2 percent of the total covered payroll of the participants.

The City previously financed postemployment benefits on a pay-as-you-go approach. All the associated costs were allocated to the various City funds where the retirees were located during active employment with the City. During 2008, the City established an Other Postemployment Benefits Trust (the Trust). Upon establishment of the Trust and implementation of GASB Statement No. 45, the City began partially pre-funding benefits. For fiscal year 2008, the City contributed \$4,481,337 to the Trust to prefund benefits, of which \$2,000,000 was accrued in fiscal year 2007. Only the prefunded portion of the OPEB cost is included in the OPEB trust. The pay-as-you-go component is funded and accounted for in the City's Internal Service Fund.

The City's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation.

Current membership in each of these plans was comprised of the following as of June 30, 2008:

<u>Group</u>	<u>General Pension Plan</u>	<u>Firemen's and Policemen's Insurance and Pension Fund</u>	<u>Other Postemployment Benefits</u>
Retirees and beneficiaries currently receiving benefits	779	682	1,014
Vested terminated employees	83	4	0
Active employees	1534	795	2,044
Actuarial update	1-1-2008	1-1-2008	7-1-2006

Trend Information:

	<u>Year Ended</u>	<u>Annual Pension/OPEB Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension/ OPEB Obligation (Asset)</u>
General Pension Plan	12/31/07	\$ 3,540,962	98.90%	\$(4,177,414)
	12/31/06	3,825,453	98.97%	(4,216,376)
	12/31/05	3,558,187	97.54%	(4,255,701)
Firemen's and Policemen's Fund	12/31/07	7,437,283	99.88%	(3,412,170)
	12/31/06	7,454,348	90.00%	(3,420,846)
	12/31/05	6,566,969	97.75%	(4,165,966)
Other Post-employment Benefits	6/30/08	20,360,866	53.24%	9,521,039

Funding Policy and Other Information:

The Board of Trustees of each plan establishes and may amend the contribution requirements of plan members and the employer. The City contributes to each plan at an actuarially determined rate. The employer's annual pension cost for the current year and related information for each plan is as follows:

	<u>General Pension Plan</u>	<u>Firemen's and Policemen's Insurance and Pension Fund</u>	<u>Other Postemployment Benefits</u>
Contribution rates for employer	6.36%	23.56%	N/A
Contribution rates for plan members	2.00%	8.00%	Varies
Annual pension/OPEB cost	\$3,540,962	\$7,437,283	\$20,360,866
Contributions made by employer	3,629,436	8,152,726	10,839,827
Contributions made by plan members	1,129,937	2,682,493	-
Actuarial valuation date for current contributions	January 1, 2008	January 1, 2008	July 1, 2006
Actuarial cost method	Entry Age	Entry Age	Entry Age
Amortization method	Level Dollar	Level Percent	Level Dollar
Remaining amortization period	30 Years Open	28 Years Closed	30 Years Open
Asset valuation method	Market Value,	5-Year Average As Adjusted	N/A
Actuarial assumptions:			
Investment rate of return	7.75%	8.00%	5.00%
Projected salary increases	4.50%-5.50%	3.25%	4.50%-5.50%
Inflation rate	3.00%	3.00%	3.00%

The City's annual pension/OPEB cost and net pension/OPEB obligation (asset) related to each plan for the current year were as follows:

	<u>General Pension Plan</u>	<u>Firemen's and Policemen's Insurance and Pension Fund</u>	<u>Other Postemployment Benefits</u>
Annual required contribution	\$ 3,502,000	\$ 7,504,469	\$ 20,360,866
Interest on net pension/OPEB obligation (asset)	(326,769)	(273,668)	-
Adjustment to annual required contribution	<u>365,731</u>	<u>206,482</u>	<u>-</u>
Annual pension/OPEB cost	3,540,962	7,437,283	20,360,866
Contributions made	<u>(3,502,000)</u>	<u>(7,428,607)</u>	<u>(10,839,827)</u>
Increase in net pension/OPEB obligation (asset)	38,962	8,676	9,521,039
Net pension/OPEB obligation (asset) at beginning of year	<u>(4,216,376)</u>	<u>(3,420,846)</u>	<u>-</u>
Net pension/OPEB obligation (asset) at end of year	<u><u>\$(4,177,414)</u></u>	<u><u>\$(3,412,170)</u></u>	<u><u>\$ 9,521,039</u></u>

Financial Reports:

The City of Chattanooga General Pension Plan does not issue stand-alone financial reports and is not included in the report of a public employee retirement system or a report of another entity. A financial report that includes financial statements and required supplementary information for the City of Chattanooga Firemen's and Policemen's Insurance and Pension Fund may be obtained by writing to the City of Chattanooga Firemen's and Policemen's Insurance and Pension Fund, 6009 John Douglas Drive, Chattanooga, Tennessee 37421. The plan financial statements are as follows:

Combining Statement of Pension Trust Net Assets:

	<u>General Pension Plan</u>	<u>Firemen's and Policemen's Insurance and Pension Fund</u>	<u>Total</u>
ASSETS			
Receivables:			
Accrued income	<u>\$ 300,097</u>	<u>\$ 530,877</u>	<u>\$ 830,974</u>
Total receivables	<u>300,097</u>	<u>530,877</u>	<u>830,974</u>
Investments, at fair value:			
U.S. Government securities	-	22,652,344	22,652,344
Corporate bonds	3,746,477	19,812,407	23,558,884
Foreign bonds	-	778,966	778,966
Corporate stocks	83,683,313	116,319,744	200,003,057
Mutual funds - equity	48,453,932	75,729,700	124,183,632
Mutual funds – fixed income	45,662,525	-	45,662,525
Temporary investments	10,121,951	10,844,739	20,966,690
Limited Partnerships	38,708,750	-	38,708,750
Other investments	<u>-</u>	<u>950,000</u>	<u>950,000</u>
Total investments	<u>230,376,948</u>	<u>247,087,900</u>	<u>477,464,848</u>
Total assets	<u>230,677,045</u>	<u>247,618,777</u>	<u>478,295,822</u>
LIABILITIES			
Accrued expenses	<u>121,925</u>	<u>550,596</u>	<u>672,521</u>
Total liabilities	<u>121,925</u>	<u>550,596</u>	<u>672,521</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$230,555,120</u>	<u>\$247,068,181</u>	<u>\$477,623,301</u>

Combining Statement of Changes in Plan Net Assets:

	<u>General Pension Plan</u>	<u>Firemen's and Policemen's Insurance and Pension Fund</u>	<u>Total</u>
ADDITIONS			
Contributions:			
Employer	<u>\$ 3,629,436</u>	<u>\$ 8,152,726</u>	<u>\$ 11,782,162</u>
Employee	<u>1,129,937</u>	<u>2,682,493</u>	<u>3,812,430</u>
Total contributions	<u>4,759,373</u>	<u>10,835,219</u>	<u>15,594,592</u>

	<u>General Pension Plan</u>	<u>Firemen's and Policemen's Insurance and Pension Fund</u>	<u>Total</u>
Investment income:			
Net appreciation in fair market value of investments	\$ (9,412,537)	\$ (20,904,952)	\$ (30,317,489)
Interest	483,051	2,833,871	3,316,922
Dividends	<u>2,293,813</u>	<u>4,668,144</u>	<u>6,961,957</u>
	(6,635,673)	(13,402,937)	(20,038,610)
Less investment expense	<u>(465,363)</u>	<u>(1,239,516)</u>	<u>(1,704,879)</u>
Net investment income	<u>(7,101,036)</u>	<u>(14,642,453)</u>	<u>(21,743,489)</u>
Total additions	<u>(2,341,663)</u>	<u>(3,807,234)</u>	<u>(6,148,897)</u>
DEDUCTIONS			
Benefits paid to participants	10,025,903	20,059,720	30,085,623
Administrative expenses	<u>130,221</u>	<u>560,325</u>	<u>690,546</u>
Total deductions	<u>10,156,124</u>	<u>20,620,045</u>	<u>30,776,169</u>
NET DECREASE	(12,497,787)	(24,427,279)	(36,925,066)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
Beginning of year	<u>243,052,907</u>	<u>271,495,460</u>	<u>514,548,367</u>
End of year	<u>\$230,555,120</u>	<u>\$247,068,181</u>	<u>\$477,623,301</u>

(4) EPB

EPB Pension Plan

EPB's Retirement Plan (the "Plan") is a Single Employer Defined Benefit Pension Plan administered by an individual designated by EPB. A stand-alone financial report is not issued for this plan. The Plan provides retirement benefits to Plan members. Article VIII of EPB of Chattanooga Retirement Plan assigns the authority to establish and amend benefit provisions to EPB.

Contribution requirements of Plan members and the EPB are established and can be amended by the EPB. The Plan does not require Plan members to make a contribution. The EPB is required to contribute at an actuarially determined rate; the current rate is 8.45% of annual covered payroll.

EPB's annual pension cost of the Plan for the current year was \$2,000,000. There is no net pension obligation as EPB has contributed the annual required contribution, adjusted with interest, as calculated by actuarial valuation. The annual required contribution was determined as part of an actuarial valuation performed as of August 1, 2006, using the aggregate cost method. The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities. Significant actuarial assumptions used in the valuation included (a) a rate of return on the investment of present and future assets of 8.5% per year compounded annually, (b) projected salary increases of 4.0% per year compounded annually, (c) no postretirement benefit increases, and (d) a discount rate of 8.5%.

Trend Information:

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/08	\$2,000,000	100%	\$3,259,000
6/30/07	2,132,000	100%	-
6/30/06	2,165,000	100%	-

EPB Other Postemployment Benefits

The Electric Power Board of Chattanooga Post Retirement Health and Welfare Benefit Plan ("Plan") is a single-employer defined benefit healthcare and welfare plan administered by an individual designated by EPB. The plan provides health and life insurance benefits. A stand-alone Financial Report is not issued for this plan.

The contribution requirements of plan members and EPB are established and may be amended by EPB. Plan members receiving benefits contribute based on retiree's age, retirement date, and years of service.

The required contribution is based on Pay-as-you-go financing requirements. For fiscal year 2008, EPB contributed approximately \$2.0 million for current claims.

The EPB's annual other post employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed twenty years.

In the July 1, 2007, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 7% investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8% initially, reduce by decrements of .25% per year to an ultimate rate of 6% in 2015. The actuarial value of assets was determined using techniques that spread the effect of short-term volatility in the market value of investments over a three year period. The UAAL is being amortized as a level dollar. The remaining amortization period at July 1, 2007, was twenty years.

EPB's annual OPEB cost and net OPEB obligation (asset) for the current year were as follows:

Annual required contribution	\$1,655,000
Interest on net OPEB obligation (asset)	-
Adjustment to annual required contribution	<u>4,000</u>
Annual OPEB cost	1,659,000
Contributions made	<u>2,006,000</u>
Decrease in net OPEB obligation	(347,000)
Net OPEB obligation at beginning of year	<u>9,468,000</u>
Net OPEB obligation at end of year	<u><u>\$9,121,000</u></u>

EPB 401(k) Plan

EPB also has a 401(k) plan which permits employees to invest up to 13 percent of salary in a tax-deferred savings plan. EPB contributes up to 4.0 percent of an employee's salary. EPB contributions are fully vested and amounted to \$889,000 for the year ended June 30, 2008.

(5) Pension Plans of Component Units

CARTA is the only component unit with separate defined benefit pension plans, and complete pension disclosures are in CARTA's separately-issued financial statements. Condensed disclosures for CARTA's defined benefit pension plans are as follows:

<u>Year Ended</u>	<u>Annual Required Contribution(ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
Disability and Retirement Plan:			
6/30/08	\$512,089	100.0%	\$ -
6/30/07	328,586	100.0%	-
6/30/06	325,973	100.0%	-
Defined Benefit Plan:			
6/30/08	\$203,137	0.0%	\$156,490
6/30/07	2,453	0.0%	(46,647)
6/30/06	88,449	0.0%	(46,540)

NOTE 11. CONSERVATION PROGRAMS

EPB is a fiscal intermediary for the Tennessee Valley Authority's (TVA) conservation programs. As of June 30, 2008, outstanding funds advanced by TVA totaled \$178,000 to be used by EPB for customer loans in connection with TVA's insulation and heat pump conservation programs. At June 30, 2008, the outstanding receivables for loans made from these funds amounted to \$168,000. A total of approximately \$78,400,000 has been loaned to EPB's customers since the programs were begun in 1977.

NOTE 12. JOINT VENTURE

The City has an equity interest in Carter Street Corporation, a nonprofit organization. Carter Street Corporation's board consists of five members. Two members are appointed by the Mayor of the City and two are appointed by the Hamilton County, Tennessee Mayor. The appointment of the fifth member, who serves as chairman, is agreed on by the City Mayor and the County Mayor.

Carter Street Corporation owns and manages a trade center and a parking garage that were financed by bonds issued by the Industrial Development Board of Chattanooga. The City and Hamilton County, Tennessee funded the repayment of the bonds through lease payments to Carter Street Corporation. Pursuant to the lease agreement, the City has a two-thirds equity interest in Carter Street Corporation upon the repayment of the bonds during prior years. The City's two-thirds equity interest in Carter Street Corporation is computed as follows:

Total net assets	\$12,535,500
Multiplied by two-thirds	<u>x 2/3</u>
City's equity interest	<u>\$ 8,357,000</u>

Complete financial statements can be obtained from: Carter Street Corporation
P.O. Box 6008
Chattanooga, TN 37401

Condensed financial information for Carter Street Corporation as of June 30, 2008, is as follows:

ASSETS

Cash	\$ 743,931
Accounts receivable, net	317,246
Inventories	104,548
Prepaid items	61,920
Capital assets, net	11,525,940
Other assets	<u>14,500</u>
Total assets	<u>\$12,768,085</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 170,703
Deferred revenues	10,000
Advance deposits	<u>51,882</u>
Total liabilities	<u>232,585</u>

NET ASSETS

Invested in capital assets, net of related debt	11,525,940
Unrestricted	<u>1,009,560</u>
Total net assets	<u>12,535,500</u>
Total liabilities and net assets	<u>\$12,768,085</u>

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Total operating revenues	\$ 6,176,061
Total operating expenses	7,096,042
Loss from operations	(919,981)
Nonoperating revenues	<u>260,970</u>
Net decrease	(659,011)
Net assets at July 1, 2007	<u>13,194,511</u>
Net assets at June 30, 2008	<u>\$12,535,500</u>

NOTE 13. COMMITMENTS AND CONTINGENCIES

The City and its component units are parties to various lawsuits and claims in the ordinary course of their operations. Management believes that the potential adverse impact of these proceedings would not be material to the basic financial statements of the City.

The City has received federal and state grants for specific purposes that are subject to review and audit by grantor agencies. Such audits could result in reimbursements to the grantor agencies for expenditures disallowed under the terms of the grants. City management is not aware of any potential losses from such disallowances and believes that reimbursements, if any, would not be material.

The City has entered into various construction commitments. Such contracts include contracts for improvements to sewer, solid waste, and w systems, and acquisition and construction contracts related to general government capital projects. Several of these contracts were in progress but not completed as of June 30, 2008. The total contractual commitments outstanding as of June 30, 2008, aggregated approximately \$32,161,089. The City has sufficient funds available to cover these commitments

NOTE 14. CONDUIT DEBT OBLIGATIONS

From time to time, the Industrial Development Board and the Health, Educational and Housing Facility Board of the City of Chattanooga have issued bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2008, 121 series of Industrial Revenue Bonds had been issued. The principal amount of the series issued after July 1, 1995, was \$210,400,000 as of August 15, 2008. The aggregate principal amounts payable for the 106 series issued prior to July 1, 1995, could not be determined; however, their original issue amounts totaled \$253,648,700.

The Health, Educational and Housing Facility Board has issued at least forty-one (41) bond issues since 1985, the original amount of which were \$591,180,000. The Board has no means of determining the outstanding amount of these bonds.

NOTE 15. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

The Solid Waste/Sanitation Fund accounts for the operations of the City landfill, as well as the closure and postclosure care costs of the City landfill and landfills closed in prior years (Summit and 36th Street). State and federal regulations require the City to place a final cover on all landfills after closure, and the City must perform certain maintenance and monitoring functions for 30 years thereafter. The City recognizes landfill closure and postclosure care costs based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs of \$10,200,052 at June 30, 2008, is based on the use of 100 percent of the capacity of the City landfill. Changes in the estimated liability for landfill closure and postclosure care costs for the year ended June 30, 2008, are as follows:

Estimated liability, June 30, 2007	\$10,211,072
Expenses recognized	220,391
Costs incurred	<u>(231,411)</u>
Estimated liability, June 30, 2008	<u>\$10,200,052</u>
Due within one year	<u>\$ 488,699</u>

The phase of the City landfill currently in use is nearly at capacity. The City plans to begin a new phase of the landfill during the 2009 fiscal year. The estimated total current cost of the landfill closure and postclosure care of \$10,200,052 is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfills were acquired at June 30, 2008. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. It is anticipated that future inflation costs will be financed in part from earnings on investments. The remaining portion of anticipated future inflation costs and additional costs that might arise from changes in postclosure requirements may need to be covered by charges to future landfill users, taxpayers, or both.

NOTE 16. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; medical benefits; unemployment compensation; injuries to employees; errors and omissions; and natural disasters. The City retains the risk of loss related to torts, certain retiree medical benefits, unemployment compensation, and injuries to employees. Prior to fiscal year 2008, the General Fund accounted for all exposures, except for torts, which were accounted for in the Internal Service Fund. Beginning in fiscal year 2008, the Internal Service Fund accounted for all exposures. To minimize its losses, the City has established a limited risk management program. Premiums are paid by all funds and are available to pay claims, claim reserves, and administrative costs of the program. The premiums are used to reduce the amount of claims expenditures reported in the respective funds. As of June 30, 2008, such interfund premiums did not exceed reimbursable expenditures. There were no significant reductions in insurance coverage in the prior year, nor did the amount of settlements exceed insurance coverage for each of the past three fiscal years.

The City has a self-funded medical benefits plan that is administered by Blue Cross/Blue Shield of Tennessee. The City's exposure is limited by a stop-loss policy with High Mark Life Insurance Company.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The liability does not include nonincremental claims adjustment expenses. Claim liabilities are calculated considering the effect of inflation, recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors. The fiscal year 2007 liabilities for claims other than tort claims are reported in governmental funds rather than the general long-term debt account group because they are expected to be liquidated with expendable available financial resources.

At June 30, 2008, the Internal Service Fund liability consists of \$3,501,000 related to torts and \$2,277,505 related to medical benefits.

Interfund premiums in the Internal Service Fund are based on the insured funds' claims experience. Premiums are adjusted to cover all reported claims. It is anticipated that the settlement of an individual claim will be funded by premiums subsequent to the filing of the claim and prior to its settlement. Changes in the balances of claims liabilities during the year are as follows:

	<u>General Fund</u>	<u>Internal Service Fund</u>
Unpaid claims, June 30, 2006	\$ 468,598	\$ 3,590,000
Incurred claims, including IBNRs/reduction in estimated liabilities	22,410,304	1,942,697
Claim payments	<u>(22,400,633)</u>	<u>(2,015,697)</u>
Unpaid claims, June 30, 2007	478,269	3,517,000
Incurred claims, including IBNRs/reduction in estimated liabilities	6,989,239	19,738,820
Claim payments	<u>(7,106,003)</u>	<u>(17,477,315)</u>
Unpaid claims, June 30, 2008	<u>\$ 361,505</u>	<u>\$ 5,778,505</u>
Due within one year	<u>\$ 361,505</u>	<u>\$ 5,778,505</u>

NOTE 17. COMPONENT UNIT SWAPTION

In March 2004 the Chattanooga Downtown Redevelopment Corporation (CDRC), a component unit of the City, sold by competitive bid a floating-to-fixed interest rate swaption. Information related to the swaption is as follows:

Objective:

CDRC entered into a swaption contract that provided CDRC an up-front payment of \$3,088,000. As a synthetic refunding of its 2000 bonds, this payment represents the risk-adjusted, present-value savings of a refunding in October 2010 without issuing refunding bonds currently. The swaption gave the counterparty the option to require CDRC to enter into a pay-fixed, receive variable interest rate swap. If the option is exercised, CDRC would expect to issue refunding bonds at that date.

Terms:

The swaption was entered into in March 2004. The \$3,088,000 payment was based on a notional amount of \$59,655,000. The counterparty has the option to exercise the agreement on October 1, 2010. If exercised, the interest rate swap will also commence October 1, 2010. The fixed rate swap (5.45%) was set at a rate that, when added to an assumption for remarketing and liquidity costs, will approximate the coupons of the “refunded” bonds. The swap’s variable payment would be based on The Bond Market Association Municipal Swap Index (BMA).

Fair value:

At June 30, 2008, the swap had a negative fair value of \$6,542,797, estimated using the zero-coupon method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon rate bonds due on the date of each future net settlement on the swap.

Market-access risk:

If the option is exercised and refunding bonds are not issued, CDRC would be obligated to make net swap payments as required by the terms of the contract. If the option is exercised and variable-rate bonds are issued, the actual savings ultimately recognized by the transaction will be affected by the relationship between the interest rate terms of the to-be-issued variable-rate bonds versus the variable payment on the swap.